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This report discusses in detail the following:

a. The exploitation of the economic potential of the Soviet Zone for the benefit of the Soviet Union.

b. The reorganization of the economic system.

c. The reorganization of the social structure.

d. The separation of the Soviet Zone of occupation from the all-German economy.

e. The effects of the Soviet economic policy.

f. The basic significance of the developments in the Soviet Zone of occupation./

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Abbreviations

SBZ	Sowjetische Besatzungszone	Soviet Zone of Occupation
SMA	Sowjetische Militäradministration	Soviet Military Administration
SMAD	Sowjetische Militärmadministration Deutschlands	Soviet Military Administration for Germany
SED	Sozialistische Einheitspartei Deutschlands	Socialist Unity Party of Germany
FDGB	Freier Deutscher Gewerkschaftsbund	League of Free German Trade Unions
VdgB	Vereinigung der gegenseitigen Bauernhilfe	Peasants Mutual Assistance Union
SU	Sowjetunion	Soviet Union
SAGs	Sowjetische Aktiengesellschaften	Soviet Corporations
LEG	Landeseigene Betriebe	Land-owned Plants
VEB	Volkseigene Betriebe	People-owned Plants

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Introduction

1. The Economic Character of the Soviet Zone of Occupation

The present Soviet Zone of Occupation comprises an area of 108,000 square kilometers with 17.33 million inhabitants (not including the Soviet Sector of Berlin) (census of 31 August 1946). It includes 30 percent of the area and 26.3 percent of the population of 1946 Germany (not including the areas east of the Oder - Neisse line). Of the total East German area occupied by the Red Army, the Soviet Union, in summer of 1945, turned over the section east of the Oder - Neisse line to the Polish government, with the exception of the East Prussian Königsberg (now Kaliningrad) area, which was annexed directly by the Soviet Union. At the beginning of July the western sections of Land Sachsen (including Leipzig) and of the province of Sachsen (including Anhalt), which up to that time had been occupied by English or American troops, and all of Thüringen were absorbed into the Soviet Zone of Occupation, while Berlin was placed under Four-Power jurisdiction.

These changes in area caused the economic character of the Soviet Zone of Occupation to change considerably; previously it had been predominantly agricultural, since the areas east of the Oder-Neisse line, except for Silesia, contained comparatively little industry but were the most important agricultural surplus areas of the former Germany. The agricultural area of the Soviet Zone of Occupation thus became appreciably smaller, while an important part of German industry was added to the Zone. The industrial areas include Land Sachsen and Land Thüringen, the southern part of Land Sachsen-Anhalt, the Soviet Sector of Berlin, and the environs of Berlin and the Niederlausitz industrial area in Brandenburg. The entire Central German industrial area, except for the Ruhr the most important industrial section in Germany, also belongs to the Soviet Zone.

The Soviet Zone of Occupation today is divided into five Laender: Sachsen, Sachsen-Anhalt, Thüringen, Brandenburg, Mecklenburg (including Vorpommern). Of these, only Mecklenburg, [redacted] the northern part of Sachsen province, and the greater part of Brandenburg are

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pronouncedly agricultural, and even of these the latter has predominantly poor soil. Contrary to the frequently held belief the present Soviet Zone of Occupation is thus, by and large, by no means an agricultural surplus area (except for a few products, such as sugar). Like the rest of Germany it can attain a standard level of nutrition only by means of considerable imports, especially of high-calorie cereal products.

The nature of industry in Central Germany is quite different from that in the Ruhr area. Especially in Land Sachsen, Land Thüringen, and Berlin processing industries predominate; the following are especially prominent:

a. Machinery industry, iron and metal goods industry, construction of vehicles, electrical industry, precision mechanics and optics.

b. Textile and clothing industry.

On the other hand, the following types are insufficiently developed:

a. Production of raw materials and fuels.

b. Several important basic industries.

The Zone comprises only a small portion of Germany's black coal production, restricted to the Zwickau - Olsnitz area in Sachsen. The Zone's greatest natural resource is the very appreciable production of brown coal, particularly in the large Central German brown coal region around Halle - Merseburg - Weissenfels - Leipzig - Bitterfeld and in Niederlausitz and Oberlausitz. Next most important are the production of potash in Land Sachsen-Anhalt and Land Thüringen and the salt production in Sachsen-Anhalt. So far as metal ores are concerned, the most important are the copper ores in the Mansfeld area, while the Erzgebirge in Sachsen now produces only a small fraction of the amounts formerly obtained there. However, in the latter area the mining of uranium ores has been developed to considerable importance since 1946 by the Soviet Military Administration. There are small quantities of iron ore, confined almost exclusively to Thüringen.

The basic industries developed in this connection are generally located in close proximity to the sources of brown coal. This pertains particularly to the following:

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1. Production of many basic chemicals, mainly in Land Cachsen-Anhalt, which contains an appreciable proportion of the whole German chemical industry (particularly the giant plants of I. G. Farbenindustrie).

2. Synthetic raw materials: nitrogen, buna, synthetic fuel, cellulose wool and rayon.

3. The processing of ~~xxxx~~ non-ferrous metals was not insignificant; for example, the copper industry in the Mansfeld area, electrolysis of zinc in Magdeburg, and the production of light metals. However, the latter two industries have been completely dismantled.

However, ~~the~~ most other basic materials industries ~~xxx~~ were comparatively weakly developed and have in addition been greatly incapacitated by large-scale dismantlings. This is especially true of the iron and steel industry, and is of even greater significance in this case because the large iron and steel processing industry in the Soviet Zone of Occupation, even before the dismantlings, operated to only a very limited extent on the basis of its own supply of basic materials.

The ~~significant~~ consequences of this structural character of the area which are of importance in the present situation are:

1. Industry in the Soviet Zone of Occupation is strongly dependent upon deliveries from the Western Zone of Germany (formerly from Upper Silesia also), principally black coal, coke, iron, steel, and rolled products. The necessity of importing iron and steel in particular has the effect of making the Soviet Zone of Occupation more strongly dependent economically upon the Western Zone than the latter is on the Soviet Zone.

2. There is also great dependence upon foreign imports, both foodstuffs, since the agricultural basis is inadequate ~~xxxxxxxxxx~~ to produce a sufficient supply for the population under normal standards of nutrition, and raw materials (for example, cotton and wool for the well-developed textile industry).

3. The counter-values for these imports must be obtained by sizable deliveries of finished industrial goods to the other parts of Germany and to foreign countries. As a result a large part of the industry in the Soviet Zone of Occupation is geared for export, especially in Land Sachsen, Land Thuringen, and Berlin.

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2. The Trends and Goals of the Soviet Economic Policy

Experience so far does not permit the recognition of a clear and unequivocal intent behind the Soviet economic policy in the Soviet Zone of Occupation. The Soviet Occupying Power has aimed mainly at the following goals, which not infrequently are contradictory:

1. Economic devastation of the Zone, apparently in order to eliminate the use of this area by the Western Powers as the base of possible future war.

2. Utilization of the economic power of the Zone to increase the Soviet Union's potential.

3. Incorporation of the Zone into an "Eastern Bloc", dominated by the Soviet Union; and as a prerequisite for this:

4. Reorganization of the former economic system and social structure to conform with Bolshevistic theories.

5. Political-psychological conquest of the population on behalf of the Soviet Union.

It appears that all five of these possible trends have operated in conjunction, or sometimes in opposition, in the Soviet economic policy; sometimes they have appeared to alternate from time to time. Parallels drawn from the Nazi economic policy make it seem probably that with the various exponents of the Soviet policy in the Zone (central authorities in Moscow, the Soviet Military Administration for Germany in Karlshorst, and the Soviet Military Administrations in the individual laender) differences in policy could also arise. For instance, there are many indications that the central authorities in Moscow do not always follow the same line as the Soviet Military Administration for Germany in Karlshorst. However, in accordance with the authoritarian set-up of the Soviet state, the final decision apparently always comes from Moscow. For an understanding of the developments, it is also significant that the central decisions not infrequently were altered -- either strengthened or weakened -- by the action of the local authorities. The relative development of power of subordinate local authorities was particularly evident during the first few months of the Occupation.

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Later the central administration became steadily stronger.

The trend toward the economic devastation of the Zone was particularly evident in the dismantlings, which reached such significant proportions in many branches of industry and in transportation that the Zone's ability to make deliveries for the Soviet Union was seriously threatened.

The principal aim of the Soviets, however, was apparently to utilize the economic potential of the Soviet Zone of Occupation to the greatest possible extent in order to strengthen the Soviet Union's own potential. To this end the Soviet authorities developed an uncommonly clever, in fact a most ingenious system of exploitation, in which no possible means to the end was overlooked. The result is the very low standard of living of the German population, which to a large extent is still not receiving even the minimum of foodstuffs necessary for the maintenance of physical existence and is completely inadequately supplied with industrial goods.

The most significant result of this exploitation was of a psychological nature: a growing bitterness among the populace, who are becoming more and more anti-Soviet. All attempts of the Occupying Power to win over the people of the Soviet Zone of Occupation spiritually to the Soviet Union and Communism have therefore been unsuccessful in the face of the hard reality of the Soviet economic policy. Originally large sectors of the population who stood on a platform of Communism or a radical Socialism placed great hopes in the Russians. However, they were soon undeceived, and their disillusionment has become steadily greater so that today only a very small sector of the population, mainly those who benefit directly from the system, are positively in favor of the Occupying Power. Thus during the four years of occupation Bolshevism has not only not gained any ground psychologically among the people of the Soviet Zone of Occupation but has actually to a large extent lost the sympathy which it originally enjoyed. This can be covered up only with difficulty by the stern use of force by the Occupying Power. In this connection the Occupying Power makes use of the Socialist Unity Party (SED) as a willing assistant.

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The economic exploitation of the Zone was thus forced into conflict with another aim of the Soviet Union, that of using this part of Germany as a permament base for Bolshevism and as a glacis for seizing power in the rest of Germany and from there on throughout Europe. It would appear that the Soviet Union would have achieved greater success for her immediate material aims if she had limited herself to the utilization of the economic potential of the Zone and had left the existing economic organization untouched, primarily on a private-ownership basis. Actually, however, the Soviet Occupying Power has executed a thorough-going reform by all possible means, not only of the economic system but of the political-social system as well, organizing it along the lines of Bolshevistic governmental and economic structure. But it must be clear even to the Russians that it has become impossible, as a result of the too extreme exploitation, to convert the people to Communism. If in spite of that the Soviet Occupying Power continues its methods of radical exploitation, it can have primarily only two reasons:

1. It is probable that the Russians expect that their control over the present Soviet Zone of Occupation and the possibility of unrestricted exploitation of this area are only temporary, and that as much as possible must be gotten out during this period.

2. It is also probable that the internal economic difficulties in the Soviet Union (also as the result of war damage) make it necessary for it to expand its economic potential through the exploitation of the Zone even though its political aims in Germany are thereby endangered. Particularly the idea of preparing for a coming war with the Western Powers plays a decisive role in this connection. It is worth noting here that similar points of view can be clearly recognized in the official SED propaganda. Both the reparations and the Sovietization of German enterprises were attributed by the SED to the motive of safeguarding the Soviet Union and with it the "socialist" economic system, goals which must take precedence over all others.

It also appears entirely possible that these reasons play parallel roles.

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Another factor which is significant in explaining the Soviet economic policy is probably the stubborn dogmatism of the present-day "soviet men", both in political and economic matters, their pronounced specialization (very evidently by far the majority of Russian "experts" are able to master only a limited field of endeavor with strictly prescribed methods), and the limited ability of the Russians to adapt themselves to the very different sort of life and economy of a European country with a basically private economic system. The members of the Occupying Power who are entrusted with decisive functions in the Soviet Zone of Occupation are generally very evidently convinced that the economic and social system in their country is superior to that of the "capitalistic" countries. It therefore seems to them to be self-evident that this system should be carried over to the areas now under Soviet domination. The officials of the Soviet Union in these areas are as a rule able to operate only by the methods of economic planning with which they are familiar from their experience in Russia and they repeatedly appear -- sometimes in what appears to a European a very grotesque way -- to be quite helpless when faced with economic forms and methods which lie outside this accustomed circle of experience. This appears particularly noticeable in their evaluation of transactions of a monetary or credit nature. Many decisions which the westerner is inclined to regard as being based on matters of principle are apparently attributable only to the inability to understand any other economic system. The planned-economy collectivization system is the only one under which the Bolshevist-trained economists and administrative authorities are able to perform.

During 1948 and 1949 the Soviet economic policy in the Soviet Zone of Occupation was increasingly determined by the tendency to weld the Soviet Union's entire eastern and southeastern sphere of incluence into an economic bloc as self-sufficient as possible. As will be shown later, the present Soviet Zone of Occupation could play an important role in such a bloc. From the Russian standpoint, however, such incorporation of the Soviet Zone of Occupation into a Soviet "expansion economy" would require that the economic system of the Zone be adapted to the system of the Eastern

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European "People's Democracies". Particularly since the interzonal trade blockade was instituted in the summer of 1948 the attempt to orient the foreign trade of the Soviet Zone of Occupation primarily toward the Eastern Bloc has become increasingly apparent.

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I. The Exploitation of the Economic Ptoential of the Zone for the benefit of the Soviet Union

1. War Booty

During the first few months of the Occupation considerable economic values were taken over by the Russians throughout the Zone, including Berlin, and for the most part shipped out. So far no official figures have been issued on this subject, let alone any complete calculations made. These values involved primarily the following categories:

1. Army stores of armaments, provisions, and materials, some of which were of considerable consequence.

2. Stores of foodstuffs belonging to civilian administrative offices.

3. Stores of raw materials in industrial enterprises, especially in plants which were dismantled immediately following the Occupation. These were by no means solely armaments plants and materials used in the production of armaments. For example, in the dismantled Kindl brewery in Berlin-Neukölln, one of the largest Berlin breweries, all raw materials were removed shortly after the occupation of Berlin, including 5000 centners of hops. According to the previously recognized international laws it appears unthinkable that raw materials so completely utilized for civilian requirements should be regarded as "war booty". Some of the raw materials stocks looted were shipped to the Soviet Union. Others of these so-called "trophy stores" later played a significant part in the raw material economy of the Zone, when they were released for processing, although exclusively for Soviet orders.

4. Cattle (both draft and meat animals). Large numbers of the cattle in the Occupation area were slaughtered to feed the troops; however, there were also large shipments to the East. The number of cattle in the Zone was

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thus very greatly reduced, although to be sure there were considerable differences among the various regions. Mecklenburg-Vorpommern suffered the most, losing 80 to 90 percent of its pigs and beef cattle. In Brandenburg the loss of horses amounted to about 70 percent and the loss of beef cattle and pigs was evidently still higher. In the western parts of the present Zone, which were originally occupied by English and American troops, the losses of cattle were disproportionately less.

5. Agricultural machinery and equipment, including even scythes.

6. Transportation equipment: railroad rolling stock, passenger cars and trucks. The Occupying Power must have commandeered about 75 percent of the park of motor vehicles. The locomotive park of the Zone has been reduced by about 60 percent, by shipment out of nearly all operable locomotives, and the loss of railroad cars was approximately the same.

7. Cash reserves of the banks, especially of Reichsbank branches in the Zone. It has so far not been possible to establish any precise statistical data concerning the size of these reserves, but obviously the amounts involved must have run to several billions, since the Reichsbank branches and also the other banks had large cash reserves at their disposal.

8. Considerable quantities of securities held by the banks were also commandeered, especially in the large Berlin banks.

9. Private property in safety-deposit boxes in banks, such as gold and silver objects, jewelry, furs, etc. In Leipzig, a short while after the withdrawal of the American troops, the Occupation authorities had all safety-deposit boxes opened, during which operation, according to various agreeing reports, a large proportion of the valuables were removed without any receipt.

10. Museum property, which was shipped to the Soviet Union; for example, the large collections of the Berlin museums, the majority of the paintings belonging to one of the outstanding museums in Europe, the Dresden Gallery, including the Sistine Madonna and a large number of outstanding Rembrandts, and the collection of the "Green Vault" (Art and Cultural History Museum) in

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Dresden. The art treasures taken from Berlin and Dresden alone must run into values of hundreds of millions.

11. Libraries. The Leipzig University, for example, had stored large collections of books in a castle near Leipzig; these were completely removed by the Russians, including even the private collections of Leipzig professors which had been given over for safe-keeping. Several months after the beginning of the Occupation large collections of books were removed from various Leipzig scientific institutes, apparently haphazardly, by a Russian commission. There was no written order. No lists were made and no receipts given, so that it is completely impossible for these removals to be entered on the reparations account. Another example of the considerable values involved is the former Herzogliche Bibliothek (library) in Gotha, whose entire collection of 270,000 volumes and all manuscripts were commandeered and shipped out.

12. The "private war booty" of the Russian soldiers must amount to quite a considerable sum. They relieved the German civilian population of large quantities of watches, jewelry, clothing, and furniture. The privately owned household goods (furniture, etc.) which were in the billets requisitioned for the Occupation troops or which were commandeered to furnish these billets must also be considered as lost to their owners.

Altogether these seizures, most of which were made quite haphazardly and without any organization, must amount to several billion RM, so that it is of considerable importance to know which were regarded as war booty and which were entered against the German reparations account. In this connection the cash reserves can be left out of calculations; they represent only purchasing power, although obviously they serve to some extent to finance Russian puchases. (See Section I, 6).

2. Supplies for the Occupation Troops

According to everything which could be learned, all food supplies for the Occupation troops in the Soviet Zone of Occupation, and also other comsumer goods, are obtained entirely from the Zone itself, in contrast to the practice of the Western Powers. In the beginning the procurement of foodstuffs

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was very slightly organized and was accomplished almost solely by means of "requisitions". Later procurement assumed more regularized form, but nevertheless, in addition to the official delivery orders, there was still a not inconsiderable amount of additional procurement by the individual local commandants and troop units. The burden on the Zone was considerably increased by the fact that during 1946 the families of the Occupation soldiers arrived in ever-increasing numbers. The feeding of the Occupation troops and their families meant, and still means, a reduction in the amounts, very small, which are available for supplying the German population, a factor which is of considerable importance. The high-calorie foodstuffs such as meat, fat, and eggs, the ration-card distribution of which is still minimal, are items particularly affected.

The quantitative significance of these deliveries to the Occupation Army may be seen from the following example from Thüringen. This Land, the smallest of the five Laender in the Zone, had to deliver to the Occupation Army the following quantities of the most vital foodstuffs during 1947:

Bread grains	12,629 tons
Groats	3,893 tons
Feed grain	2,589 tons
Fresh vegetables	5,500 tons
Potatoes	8,656 tons
Meat products	3,080 tons
Animal fats	478 tons
Butter	600 tons
Fresh eggs	4,100,000
Dairy products	1,000 tons
Hay	2,400 tons
Straw	2,032 tons
Root crops	400 tons
Potatoes for feed	2,640 tons
Sugar	4,536 tons

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Dried fruits	40	tons
Tomato paste	220	tons
Zwieback	300	tons
Bread (baked)	7,200	tons
Paste products	500	tons.

(In addition, Thüringen also had to deliver 25,000 tons of sugar as reparations in 1947.)

The procurement of industrial goods for the Occupation army is discussed in Section I,5. Except for pure reparations, the Red Army, under its special programs, plays the most important role among the numerous Soviet "consumers".

3. Dismantlings

The dismantlings, which were started almost immediately after the beginning of the Occupation, made decisive inroads in the available industrial capacity in the Soviet Zone of Occupation. The war damage, resulting mainly from aerial bombings, was less in the industry in this area, which was more decentralized as to locality, than in the Western Zones, particularly the Ruhr area. It was confined mainly to individual centers, mainly Berlin, Dresden, Leipzig, Chemnitz, Plauen, and Magdeburg. These comparatively small losses, however, were not only equalled but far exceeded by the dismantlings carried out by the Soviets, the extent of which is very much greater than the cut-back in the industry in Western Germany.

The dismantlings took place in five waves:

The first wave hit Berlin, where in the two months between the beginning of the Occupation and the beginning of Four-Power administration a completely radical evacuation took place in the most important branches of industry (particularly machinery construction, the electrical industry, and precision mechanics), whereby Berlin's economy was much more severely affected than that of any other German area. The difficulties with which Berlin industry has had to cope even since the lifting of the blockade (deterioration of competitive position in comparison with estern Germany because of higher costs) are

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attributable primarily to these extraordinary losses of capacity.

The second wave consisted of the dismantlings in the rest of the Zone of Occupation during the period from summer 1945 through the winter of 1945/46. They affected both industry and transportation. By number of plants, by far the greater part of all dismantlings took place during this period, and there is probably scarcely one branch of industry in the Soviet Zone of Occupation which did not lose a greater or lesser number of its factories as a result. In addition to the large and very large plants, ~~EXEXS/XEXE~~ a great number of medium-sized and even small plants were affected, even some of the larger hand-trades enterprises. In transportation the tearing up of the second track on almost all the sectors of the railroads in the Zone was of special significance. In addition, considerable quantities of other technical railroad equipment and long-distance communication equipment were also removed.

The extraordinary haste with which the Soviets conducted the first and second waves of dismantlings is apparently to be explained by the fact that the Soviet Union wanted to accomplish them in advance of any later joint agreements among the victorious powers. Furthermore it is probable that the Soviets do not intend to recognize any dismantlings which took place before the issuance of the first Industry Plan (March 1946) as German reparations but will designate them as war booty, and that for this reason they tried to dismantle everything as radically as possible during the early period of Occupation. The definite lack of any plan or coordination in these early actions resulted in the fact that the inner coordination of the industrial economy of the Zone was seriously jeopardized.

At the beginning of 1946 a certain pause appeared to have been reached in the dismantlings. It was hoped in German economic and administrative circles that it would be possible to count on the remaining capacity in the future, especially since only a small portion of the installations dismantled up to that time had actually been shipped out. However, this hope turned out to be fruitless, for at the end of March 1946 (thus probably in connection with the first Industry Plan) the tearing down of considerably more than 200 plants was again ordered, by the so-called "great dismantling order".

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The execution of this order represented the third wave, from spring to fall of 1946. Primarily large plants were affected by this wave. The number of jobs lost as a result is estimated by the German Central Administration for Industry at about 400,000. These dismantlings far exceeded the specifications of the first Industry Plan issued in March 1946 by the Control Council. For example, 20 percent more of the capacity of the already greatly reduced paper industry was torn down, more than 20 textile plants, nine shoe factories, and 15 sugar factories. The execution of a planned economy which would be to any extent capable of functioning was thereby made tremendously difficult. For example, these new dismantlings practically eliminated all capacity for soda and caustic soda, with serious consequences in various branches of industry such as the soap and glass industries. In addition, there were also further dismantlings of transportation equipment; for example, the very important electric rail line between Magdeburg, Bitterfeld, and Leipzig was totally dismantled.

In May 1946 Marshal Sokolovsky declared that industrial dismantling was ended with this wave. However, this assurance was not adhered to. A fourth wave of dismantlings started immediately after the elections in October 1946, in which the SED suffered a severe defeat in Berlin -- doubtless contrary to the Russians' expectations -- and in the Parliamentary elections in the Zone either did not attain a majority at all or only a very small one. Apparently the Allied Control Council's decision to subject the armaments industry in all Zones to an inspection also played a part in this fourth wave. Mainly armaments plants were dismantled which up to that time had been working for the Russians, such as aircraft factories and also the world-famous optical plants of Zeiss and Schott in Jena and Saalfeld, several large printing plants in Leipzig, and enterprises engaged in brown coal mining and the production of electric power.

At the beginning of 1947 Marshal Sokolovsky again promised that dismantling would be completely stopped except for seven coal-mining enterprises. This second promise also proved untrustworthy. For in fall 1947 a fifth wave of dismantlings started, during which another 1,200 kilometers of railroad track had to be

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torn up. This could be accomplished only by removing completely some auxiliary lines, especially those near the Zonal borders, which was very disadvantageous for the transportation of agricultural products. Furthermore there were more dismantlings in the brown coal mining industry and in the electric power industry. These latter were disguised as the completion of dismantlings already started, although everyone had assumed that Sokolovsky's promise would apply even to these plants.

In 1948 only three individual dismantling actions were carried out, and these affected solely plants which had been made SAG's. They included a partial dismantling of the Buna plant at Schkopau (only in the final processing stage, the actual production of buna) and the complete tearing down of the former Siemens branch plants in Gera and Arnstadt.

Press reports in the summer of 1948 which announced another great wave of dismantlings -- one which would affect all SAG plants and about 40 large people-owned plants -- have so far not been borne out. To be sure, there are many indications that there were actually serious plans or at least considerations of this move on the part of the Soviets. It is not yet possible to say whether these plans have been entirely rejected or whether their realization must be counted on in case the Soviet Army of Occupation should withdraw. In any case, any further large-scale dismantlings of SAG plants, which include the greater part of the basic materials industry of the Zone, would have a disastrous effect.

A great number of workers were drafted for the dismantling operations, and large quantities of materials were commandeered, especially wood (the entire box industry of the Zone worked almost exclusively for this purpose) as were means of transportation, in which connection the inadequacy of the capacity of the railroad system as the result of the dismantlings immediately became apparent.

The total number of plants dismantled has so far not been precisely determined by the Germans. The most inclusive list known to the author contains about 2,200 plants. It must be assumed, however, that the actual number (including Berlin) must be around 3,000. In any event, it is much larger than

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the figure of 679 plants mentioned by Molotov at the Moscow Conference of 1947. In some cases plants which were rebuilt were even dismantled a second time.

The greatest extent of the dismantling operations was in the following branches of industry:

1. Metallurgy
2. Machinery construction
3. Construction of vehicles
4. Electrical engineering
5. Precision mechanics and optics
6. Chemical and chemical-pharmaceutical industry
7. Building materials industry, including glass and ceramics
8. Wood industry (primarily sawmills)
9. Paper and cellulose manufacture
10. Graphics industry
11. Brown coal mining and briquette production
12. Production and distribution of electric power.

In addition, however, the dismantlings of means of transportation are also of very great economic significance. The performance of the railroad in the Zone was reduced by about 40 percent simply by the tearing up of the second tracks. Appendix I contains data on the extent of dismantlings and the remaining capacity for a number of branches of industry. It may also be seen from this that dismantlings were by far not restricted to war and armaments industries but were also carried out in clearly peacetime industries. They far exceed in all branches of industry, the specifications of the first Industry Plan issued by the Allied Control Council in March 1946, which were themselves very severe and which formed the rightful basis for all industrial dismantling.

In the future the loss of jobs will have a very critical effect on the economy of the Zone, assuming that normal work productivity is restored. The weakening of the basic materials industries, which in any case were not greatly developed in the Soviet Zone of Occupation, is particularly disadvantageous.

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For example, the raw steel capacity, which even before was in no wise adequate to cover the Zone's requirements, has been reduced by about 20 percent; the same is true of coal and power. The Zone's export possibilities have been considerably reduced, because precisely those industries which were particularly affected by the dismantlings were the ones which formerly worked to a large extent for export and for markets outside the Soviet Zone. Since in general the best and most modern plants were the ones dismantled, average production costs in the industry of the Soviet Zone of Occupation have been greatly increased as the result of the dismantlings.

The Russians have promised to include the dismantlings on the reparations account. However, the question of which dismantlings the Soviets are prepared to include remains completely unclarified. At any rate, it appears so far that the very great number of plants dismantled during the first few months of Occupation are regarded as war booty and will thus not be included in the account. The matter of evaluating the dismantled plants has also not been cleared up. The Soviets have so far made no statements as to what basis shall be used for the evaluation. It must also be taken into account that, contrary to the Potsdam Industrial Plan, not only were the installations dismantled but also the total reserves of raw materials and semi-finished and finished goods belonging to the dismantled plant were regularly carried off. The amounts to be entered on the reparations account would thus be considerably increased.

Since both the dismantling and the shipment of dismantled machinery and installations were performed very unscientifically for the most part, all experts are convinced that only a relatively small proportion of the dismantled installations can be reassembled in the Soviet Union in such fashion as to be operable. There are many indications that the deciding factor in the case of a great number of the dismantlings was the intention to reduce the economic power of the Zone critically. In fact, in some cases the dismantled machinery was immediately reduced to scrap right in the factory grounds.

As the result of dismantlings and war damage the Soviet Zone of Occupation

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cannot have more than 50 percent of its former industrial capacity left, in comparison with 1936. In the iron-working and metal-working industries there cannot apparently be more than 30 percent remaining at most. To be sure, in calculating the present production capacity it must be taken into account that some -- although a very small part -- of the dismantled installations have meantime been rebuilt, in some cases on the basis of special orders from the SMA. The Two-Year Plan of the SED for 1949/50 also serves primarily the purpose of compensating to some extent for the plants lost through dismantling in some of the most important basic materials industries (especially in the iron and steel industry) by rebuilding the plants which have been torn down.

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2.6

4. Soviet Plants

a. The Soviet Corporations (SAG's)

A new form of economic exploitation of the Zone started in the summer of 1946, the Sovietization of a large number of the most important industrial enterprises in the area. The official Russian reason for this was that the plants involved were those which were designated for dismantling but which in the interest of the Zone's economy would not be dismantled. Ownership of the plants would pass into the hands of the Soviet Union, but the plants themselves would remain in the German people's economy. This explanation does not hold water, because precisely in those branches of industry which were Sovietized the dismantlings to date have been far in excess of those specified in the first Industrial Plan, of March 1946. The further dismantlings which are reportedly planned in plants requisitioned by the Soviet Union would certainly find no legal basis in the regulations of the Control Commission concerning the permissible level of German industrial capacity.

The taking over of the plant property was done on the basis of SMAD Order No. 167 of 5 June 1946. Only the tangible property was taken over (ground, buildings, machinery, and stocks), not the financial obligations. Liquidation commissions were set up to dissolve the [redacted] firms which were still formerly German. The debts of the Sovietized plants were thus turned over to the Land governments of the Soviet Zone. For example, the Land government of Sachsen had to pay 46,824 million RM up to 31 December 1947 under the heading of "Elimination of the Debts of the Corporations", and another 22.3 million RM were included in the budget for 1948/49 for this item.

According to official data, about 200 plants were originally Sovietized. Of these, 74 plants, with 68,720 employees and a capital of 637.2 million RM, were given back to the Land governments in February 1947. Experience shows that those returned were primarily unprofitable enterprises. For example, the copper slate mining in the Mansfeld area, which has been unprofitable for some time, was returned to the government of Sachsen-Anhalt, while the

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considerably more profitable copper-processing plants (Hettstedt) remained in Soviet hands. The calculation of profit and loss in the Land-owned plants in the Province of Sachsen-Anhalt for the period from 1 October 1946 to 30 June 1947 is especially characteristic in this connection. With the returned SAG's there was a loss of 3.2 million RM; without these plants there was a profit of 6.6 million RM. Thus while the other Land-owned enterprises were making a profit, the Soviet plants which had been returned produced a defibit of almost 10 million RM in just three-quarters of a year.

Since these large-scale returns, new returns have taken place in only a few instances; for instance, the former Siemens plants in Gera and Arnstadt, which were completely dismantled. Leading SED politicians have frequently drawn attention to the fact that all SAG plants will eventually be returned "to become the property of the people"; however, there are no promises being made by the Occupying Power on this score.

The approximately 130 plants which have remained in Soviet ownership are generally referred to as "Soviet Corporations" (SAG's); however, this designation is not quite correct, since it should be applied only to the 33 holding companies, not to the 130 plants which combine to make them up. So far no official statistics concerning the size and the production of the SAG's have been issued. The present number of employees in the SAG's is about 290,000 (not including the workers in the uranium mines). They are distributed approximately as follows among the various branches:

Chemical industry	75,000
Coal mining and fuel production	68,000
Construction of machinery and apparatus	45,000
Electrical industry	26,000
Metallurgy	25,000
Construction of vehicles	22,000
Potash mining	12,000
Precision mechanics and optics	7,000
Building materials and glass	4,500
Rubber-processing industry	2,500
Paper industry	500.

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The total number of employees is distributed among the five Laender of the Soviet Zone of Occupation and the Soviet Sector of Berlin approximately as follows:

Sachsen-Anhalt	155,000
Sachsen	58,000
Thüringen	50,000
Brandenburg	5,000
Mecklenburg	5,000
Soviet Sector of Berlin	16,000.

The SAG's play their major role in the economy of Sachsen-Anhalt. Here there are in particular the large plants of the I. G. Farbenindustrie, also a number of the largest coal-mining, fuel, and metallurgical enterprises (Thale Iron Works and Foundry, Krupp-Gruson Plant in Magdeburg, rolling mill for non-ferrous metals in Hettstedt). The five largest SAG plants in the chemical industry in Land Sachsen-Anhalt had the following numbers of employees at the beginning of 1949:

Leuna Chemical Plant, Leuna near Merseburg	27,000
Buna Chemical Plant, Schkopau	16,000
Wolfen Film Factory, near Bitterfeld	10,000
Bitterfeld Combine	8,400
Wolfen Dye Factory, near Bitterfeld	5,500.

These five large chemical plants alone thus employ 67,000 persons altogether.

The SMA gave assurance that the capital value of the plants taken over would be entered on the reparations account. The basis of calculating these values, however, is such that the amounts entered in the reparations account are generally a great deal lower than the actual current values. Figures are known for a number of Sovietized plants in Land Sachsen, showing the contrast between the valuation of the plants by the Land government and the valuation by the SMA. For ten enterprises in Land Sachsen the total capital value was estimated by the Land government at 179.04 million RM, by the SMA at 86.4 million RM. The differences between the German and the Soviet estimates are particularly great in the case of the large enterprises. For example, the German valuation

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of two large power plants was 76 million RM, the SMA's valuation 34 million RM. Altogether, reckoning conservatively, it may be assumed that the capital value of the plants now in Soviet ownership would amount to about three to four billion RM, if the present value were properly calculated.

The following details concerning the SAG's are included in Appendices II and III:

1. A nearly complete list of the plants which have passed into Soviet ownership.

2. The SAG's' share in the production of the Zone according to the production plan for the second quarter of 1947. According to these figures the SAG's' production was worth 441.5 million RM. Since there has certainly been an increase in production since then, the value of annual production today cannot be much under two billion marks. Under present conditions it can be assumed that the SAG plants contribute somewhat more than one-fourth of the gross value of production in the Soviet Zone of Occupation.

The Soviet plants enjoy a very favorable position, compared with the German plants, as the result of the following factors:

a. They receive absolute priority in allotments of raw materials, coal, power, and manpower.

b. They offer better working conditions (supplemental pay in kind) which attracts the especially competent workers.

The significance of the SAG's lies mainly in the fact that most of the large plants in the Zone are among them. On an average the individual Soviet plant employs about 2200 to 2300 persons. However, it is still more significant that the SAG's are, above all, plants in key industries or basic materials industries, so that the remaining industrial production of the Zone is largely dependent upon them. The SAG's comprise a particularly high proportion of plants in the following branches of industry: coal mining, potash mining, metallurgy, construction of machinery and vehicles, electrical industry, general chemistry, petroleum industry, rubber industry (buna production).

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However, their production, with a few exceptions (for example, nitrogen), is used exclusively for Soviet purposes, either directly by delivery of the products to the Soviet Union or indirectly by using the basic materials and semi-finished products in other plants for processing for Soviet orders. For example, almost the entire synthetic fuel production of the Soviet Zone is in the hands of the Soviets, who make only a very small portion of the fuel produced available to the German economy. Since a large proportion of the SAG's are basic materials industries, it may be assumed that the indirect method of requisitioning through the SAG's is more important for the Soviet Union that the direct method. A third method is the export of SAG products on Soviet account.

So far as production is concerned, the SAG's are completely divorced from any German influence. German offices also have nothing to say about the distribution of the products. Only the fact that the SAG's are subject to the German tax law is expressly recognized by the SMA.

The central administration for all Soviet plants is in Berlin-Weissensee. At the same time groups of plants in the same branch or related branches of industry are united into "Soviet State Corporations". According to common concepts these corporations correspond to a concern's holding company. Appendix IV contains a list of these Soviet State Corporations. The final decision concerning the SAG's affairs is certainly made in Moscow, where the main offices of the companies are located, with branch offices in Germany. These branch offices have been entered in the trade registers in Halle, Weimar, and Leipzig. The form of the entry is shown in the sample in Appendix V. The capital is given in rubles, and the amounts in some cases are extraordinarily high. These figures are meaningless, however, in determining the actual capital value of the plants taken over by the Soviets, since the actual value of the ruble relative to the mark is not fixed, and furthermore the specification of the capital of the individual SAG's is clearly made quite arbitrarily.

The individual Soviet plants are under the direction of a Russian Director General, who frequently has other Russians assisting him as deputy Directors General, Division Managers, and Managing Engineers. Subordinate to this Russian top management, however, the former German managing personnel

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are usually retained. The laborers are exclusively German.

The finances of the SAG's are handled by the Guaranty and Credit Bank, Inc., which is also Russian-owned (see Section I, 4c).

Some of the products of the corporations which go to the Soviet Union are considered as reparations deliveries, the manufacturers and/are consequently paid for them from Zonal budgets. Obviously, however, this form of accounting applies to only part of the deliveries of the SAG's, whereas another portion serves to transfer the financial gains of the Soviets from the SAG's and is not entered on the reparations account.

The Soviets have developed a peculiar system for the financial exploitation of the plants belonging to them. Its purpose is to make the amount of these proceeds independent of the profitability of the plants. This system, which is employed in at least some of the plants, is as follows:

~~There exists a lease arrangement between~~ Between the Main Administration of the SAG's in Berlin-Weissensee and the individual SAG's which act as holding companies there is a lease arrangement for the individual plants which the holding companies administer. The SAG's have to turn over a fixed rental sum to the Main Administration and in addition a percentage of the profits, which, however, is not uniform. The amount of the rental is considerable. For four large plants in the chemical industry it amounted to (spring 1949):

Leuna Plant		3.5 million marks per month
Bitterfeld Electro-chemical Combine	over	2.0 " " " "
Wolfen Film Factory	about	1.5 " " " "
Wolfen Dye Factory	"	1.5 " " " "
Total		8.5 million marks per month.

Thus an annual rental of 102 million east marks per year is realized just from these four plants.

The peculiarity of this system is the fact that the rental sums do not represent a percentage of the profit but rather a percentage of the costs. They must be paid even when the individual plant has not made a profit but is actually ~~working at~~ operating at a loss. In this way the Main Administration of the SAG's is protected against all economic fluctuations and variations,

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since its financial demands must be covered in any case on the basis of the fixed lease arrangements.

The high rentals are doubtless one of the reasons why many SAG's are not making a profit. The deficits which develop have to be covered at least in part by subsidies from German financial budgets. For example, the Leuna Plant deficit in 1946 and 1947 amounted to about two million marks per month on an average. In 1948 it increased further and in spring of 1949 it was 2½ to 3 million marks. In the budget of Land Sachsen-Anhalt for 1947/48 public subsidies for SAG plants were estimated in the amount of 60 million RM, or about 35 percent of all estimated subsidies. In July - August 1947, however, the actual subsidies paid amounted to 15 million marks, or 69 percent of all subsidies. Thus very considerable sums have to be paid from German funds in order to provide the profits and rents from the SAG's for the Soviet Union.

The amount of the financial proceeds which go to the Soviet Union from the SAG's is not known. Conservative estimates indicate that the sum must be between 300 and 500 million east marks. The transfer of these amounts is obviously effected primarily in kind, that is, in products of the SAG plants.

B. Other Soviet Industrial Plants

The 130 or so SAG plants do not represent all the plants which are under Soviet Control. There are also the following groups:

1. Plants under Soviet trust administration

These are plants which were sequestered on the basis of SMA Order No. 124 (see Section II, 7) and concerning which no final decision has been made as to ownership. When in the spring of 1948 Marshal Sokolowski ordered that the sequestration come to an end, a decision was made concerning the majority of these plants: they were to become "people's property". So far as can be determined only a small number of plants still remain under direct Soviet trust administration, those which formerly belonged to the I. G. Farbenindustrie. However, the most important plants in this latter category had already become Soviet property in 1946.

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2. Plants which are actually branch plants of an SAG but are not officially administered as such. These are usually rather small plants which operate as supplier plants for the SAG's and perhaps to some extent are camouflaged as Land-owned plants.

3. Plants which have become actual Soviet property outside the network of the SAG's. These include, for example, the former AEG Apparatus Factory in Oberschöneweide and the Oberspree Tube Factory in the Soviet Sector of Berlin. The number of plants in this group is not large. There are also instances of Soviet participation in the capital of corporations. Thus for example 55 percent of the capital of the Soviet-licensed motion-picture company "DEFA" is in Soviet hands.

4. Plants which operate as technical development and construction bureaus (see Section I, 4d).

5. Red Army plants (including among other the former AEG shops in Berlin-Rummelsburg).

6. Plants which are Soviet-owned but not openly. It has already been pointed out that apparently some plants which purport to be Land-owned are actually Soviet property. There are also cases where Soviet individuals reportedly have become the owners of German plants (for example, the Wildenfels Paper Factory in Wildenfels near Zwickau). Considering the peculiarity of the Soviet system it is highly unlikely that such private acquisition of property would be possible, and it may be assumed that in such cases the purported owners are only fronts for the Russian state. Payment by the Soviets in such cases of acquisition of property is certainly made from the sums which the Finance Administration of the Zone has had to turn over to the Occupying Power. The transaction thus actually amounts to a transfer of property without compensation, that is, a reparations payment. However, it must be assumed that there is no intention of recording this figure on the reparations account.

Thus the entire industry of the Soviet Zone of Occupation is interlaced by a network of Soviet plants in different guises. Their share in the total production must be about 25 to 30 percent (not including the uranium mining).

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No new instances of Sovietization have been observed for some time.

c. Uranium Mining

The uranium mining in the Erzgebirge in Sachsen represents a special aspect of Soviet industrial interests. The production of uranium ore (pitchblends) in the Bohemian Erzgebirge (Joachimsthal) has been known for decades. Up to the end of the war, however, no such mining had ever been done on the German side of the border. The significance of uranium ore as the basic ingredient in the production of atomic energy caused the Soviet Occupying Power to promote its mining with extraordinary energy. The initial work of opening up the deposits was started in the summer of 1946, and a number of mines in this area were taken over under the direct administration of the Occupying Power (Aue, Schneeberg, Johanngeorgenstadt, Lauter, Marienberg, and Annaberg, also the ore-dressing plant at Pechtelsgrün). Since then a great number of new shafts have been sunk and the work is constantly being extended to new areas and new deposits. For example, mining is now going in the immediate vicinity of the cities of Chemnitz and Freital, near Dresden. The entire mining area is very strictly blocked off, in a manner never before known in Europe. Traveling in and out is permitted only with the special permission of the local Russian commandants. Persons leaving the area are subjected to very strict inspection by Russian soldiers, including the contents of brief cases and letter cases.

An unusually large number of workers were necessary for the mining of the uranium ores on this scale, partly for the exploratory work, partly for the actual mining operations. In order to obtain them the SMA ordered large-scale conscription of forced labor, first in Sachsen, then in the other parts of the Zone. Members of the most varied professions were affected by the forced labor; even independent hand tradesmen, small industrialists, merchants, etc. were taken. The persons drafted for mining were almost all unfamiliar with the work, since there are only a few skilled ore-miners in the Soviet Zone of Occupation and they were needed more urgently for other assignments. Even women were used, although they were employed only for work above ground.

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The following figures may be mentioned to indicate the extent of the conscription: In the Stendal Labor Office district alone (with about 120,000 inhabitants) 952 workers were supposed to be furnished for uranium mining during the period from June 1947 thorough March 1949. Acutally 693 were drafted during that period. In March 1949 in Land Sachsen-Anhalt alone 1597 workers were newly assigned to uranium mining.

The execution of the forced recruiting was very difficult, since a large part of the populace attempted by every means to avoid being conscripted for uranium mining as the result of the very unfavorable rumors which were circulating. Actually the working conditions were very unfavorable in every respect, even during this early period. Many of the conscriptees fled. As a result the shipments of laborers were generally made under police guard. Cases are also known where the escape of a conscriptee led to the seizure of his relatives; that is, for example, the wife of the escapee was conscripted in his place. In the mining area itself strict measures are taken to prevent the escape of the miners, so that the working conditions are those of involuntary or semi-voluntary labor (even though limited as to time).

On the other hand an effort was made to make mining work attractive by offering very high pay. In general the wages received by the uranium workers were actually much above the average in the Zone, and cases are known where the best underground workers who were especially lucky in their output received monthly wages of two to three thousand marks. To be sure this does not represent any correspondingly high real salary, since the supplemental purchasing opportunities are very limited even for the uranium workers and the goods are very expensive. Another attraction was supposed to be the very good food supply. There is no doubt that the uranium workers are the best supplied with foodstuffs of any workers anywhere in the Soviet Zone of Occupation, and they also receive special allotments of tobacco, liquor, and textiles. The living conditions, however, which were catastrophic in the beginning, are still decidedly unsatisfactory. Most of the workers live in emergency shelters. Long distances to walk are the general rule. At the moment the Bismuth Corporation is carrying out a building program for dwellings,

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but its scope is still far out of proportion to the requirements which have developed as the result of the tremendous population shifts. The most unfavorable aspects of the uranium mining are the extraordinarily unsatisfactory operational installations, for there are not even enough of the most primitive sorts of equipment available. The safety measures are very poor. As the result of the completely inadequate safety equipment there are serious accidents with frequent fatalities. The work with the radioactive minerals soon leads to serious damage to health, for which the apparently high wages in no way compensate.

Since the summer of 1948 there has been more and more of a tendency to change from the principle of forced labor to the recruitment of voluntary laborers. Broad-scale propaganda has been disseminated through the Labor Offices and the press as well as by word of mouth through professional recruiters. The working conditions, the wages, and the food supply are described in the rosiest of colors. It is characteristic that in this connection only "mining" is mentioned, never "uranium mining", and the impression is supposed to be given that the work is solely for the rebuilding of Germany. The success of this voluntary recruitment has been steadily greater since late fall 1948, since the rapidly increasing unemployment has caused the work in uranium mines to appear as a last resort to many persons. The recruits must sign up for at least one year, whereas the Bismuth Corporation has the right to terminate employment on two weeks' notice.

Recruiting is still going on constantly, because the increasing extent of the mining on the one hand and the very great fluctuations in the labor supply on the other cause a continual need for men.

In the summer of 1947 the totla number of employees in uranium mining was estimated at about 30,000. However, this figure has meanwhile been far exceeded and is continuing to rise. According to various reports it may be assumed that the total number employed by the Bismuth Corporation is at present between 70,000 and 80,000. A large number of these naturally are those working

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above ground in the ore-dressing plants and on transportation jobs, etc. The actual number of miners must be less than half of the total number. By way of comparison, in 1939 there were 1828 workers reported employed in all ore-mining operations in Sachsen.

In addition to the conscription of labor from the Zone the uranium mining has also required the requisitioning of materials of all sorts in great quantities. For example, during the third quarter of 1948, 320,000 cubic meters of wood were allotted for all industry in Sachsen, including the Bismuth Corporation. During this period the Bismuth Corporation alone received purchase permits for 335,000 cubic meters. If these permits had actually been honored at full value there would have been nothing whatsoever left over for other industry. During the same period, in Sachsen alone, the following were working solely for the Bismuth Corporation, primarily for the building of homes for the workers in the uranium mines: 46 cement goods plants, 18 brickyards, one limestone quarry, one plant producing construction board, one plant making portable barracks.

At the end of 1947 the Soviet State Corporation "Bismuth" (Wismut) was founded as the agency responsible for uranium mining. In contrast to the other Soviet Corporations, and in comparison with the gigantic scope of its activity, its nominal capital is very low, 50 million rubles. The official seat is in Aue, the main administration now in Siegmar-Schönau near Chemnitz. The installations include a uranium research institute which is attached to the Freiberg Mining Academy.

The proceeds of the uranium mining accrue almost solely to the benefit of the Soviet Union. Only the first stage of ore-dressing takes place in the mining area in Sachsen. If the ores indicate that they contain uranium, they are shipped immediately to the Soviet Union. The amount of uranium content is generally valued by German experts as rather low, in contrast to those produced on the Czech side of the border around Joachimsthal. In the latter area also uranium mining is being conducted on a large scale by the Soviets, and the area around Joachimsthal is similarly under Soviet administration, just as is the mining area on the Sachsen side. Since the ore on the Sachsen

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side of the Erzgebirge is being exploited on such a large scale and at such great expenditures, in spite of the apparently rather low uranium content, this would appear to indicate that the other sources of uranium available to the Soviets are not very rich. In any event it should be noted that the Soviets themselves incur practically no expenses from the entire operation, so that every gram of uranium thus obtained is to a certain extent a gift.

Undoubtedly the mining expenses are very considerable, especially because of the to some extent very high wages. Estimates of the present situation vary between 3/4 and 1½ billion east marks per year (figures of five to six billion per year mentioned in the press are greatly exaggerated). It can probably be regarded as certain that the cash to pay for these expenses comes from the large sums of money which the Finance Administration of the Soviet Zone of Occupation has had to turn over to the Soviets. There are no other opportunities available for the expenditure of some of these amounts, since the seizures from current production, which will be described in the next Section, can scarcely be increased. The Soviets' expenditures for uranium mining thus are made from funds with which they cannot obtain any other real values.

Whether the value of the labor or of the quantities of uranium ore obtained are in any way recorded on the reparations account is completely unclear. It is in any event completely impossible for the Germans to make any sort of check, since all these affairs are kept strictly secret by the Soviets. Since the uranium mining is the most important way in which the manpower of the Soviet Zone of Occupation is being used directly for Soviet purposes, it must be demanded that the value of the work output be included as a German reparation. The mining is completely unproductive for the German economy itself. It has even had very unfavorable effects on the population and the economy of the Sachsen Erzgebirge. For example, the well-known radium spa at Oberschlema has completely lost its importance as a resort, and the effects on the industry of the region are also completely negative. The actual mining areas, with their masses of workers assembled from hither and yon, with their motley professional backgrounds, separated from homes and families, constitute a very sad picture from the human and social point of view. Morals have dropped to

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a very low ebb; venereal diseases are widespread. Descriptions of eye-witnesses depict conditions which compare with those during the American gold rush in the middle of the 19th century.

d. The Development and Construction Bureaus (SKTB's)

Another special group of Soviet enterprises comprises the technical development and construction bureaus. Their job is to carry out technical and scientific research and developmental work, some of it connected solely with war economy, some of it of a civilian nature. For example, in one large textile machinery plant in Chemnitz a new loom has been developed on Soviet orders. Most of the bureaus work on assignments dealing with machinery, electrical engineering, precision mechanics and optics. The development bureaus are either a part of the Soviet Corporations, or of German plants (usually "people-owned"), or else entire plants are turned into such development bureaus. The size of the plants is very variable, as is the duration of their work. Sometimes bureaus are set up for very definite single assignments, after which they are closed down again. Sometimes they have greater scope and work continuously on a number of projects. One of the largest development bureaus in Sachsen had about 300 employees at the beginning of 1948 (with a high percentage of highly qualified workers). Most of the bureaus, however, are considerably smaller.

The basic significance of the bureaus is the fact that the experiences of German plants and the technical and scientific abilities of the personnel working for them are placed exclusively at the disposal of the Soviet Union, and the results of their work benefit solely the Soviet Union. This is particularly worth noting because the press, which is dependent upon the Soviets, is constantly pushing the propaganda line that the Western Powers, by taking over German patents, must have obtained reparations of great value, although it is well known that these expropriated German patents, in contrast to the results of the work done in the development bureaus, also benefit the Soviet Union.

The financing of the SKBT's apparently is effected by means of the monetary payments made by the Finance Administration of the Zone to the SMA

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e. Soviet Trade and Transportation Companies, Guaranty and Credit Bank, Inc.

The Soviet enterprises operating in the Soviet Zone are not limited to the industrial properties discussed so far. There are a number of other Soviet companies which are not producing concerns but which are active in trade or transportation. The great significance which accrues to the Soviet trade companies within the scope of requisitions from current production is treated in Section I, 5 in greater detail. Following are the most important of these trade companies:

Rasno-Export, Ltd.

Techno-Export, Ltd.

Exportljon, Ltd. (textiles)

Rasno-Import, Ltd.

Soyuzpushchnina, Ltd. (furs)

Voyentorg and Ossobtorg (trade companies of the Red Army. Ossobtorg was also used to purchase gold and diamonds.)

Purchases made by these trade companies not only serve to cover Soviet requirements but are primarily for export on Soviet account. In order to finance its purchases the Rasno-Export in particular indulged from time to time in extensive black market operations. (See Section I, 10c).

The following companies also play an important part in the economic life of the Zone:

1. Derutra (Deutsch-Russische Transport A. G. -- German-Russian Shipping Corporation), main office in Berlin.

This enterprise was reestablished in 1946, having previously operated in Germany from 1920 to 1935. It has a main office in Berlin, 12 branches in towns throughout the Zone, harbor installations in Rostock, Warnemünde, Wismar, Stralsund, and Sassnitz, border agencies at all rail border crossings, storehouses, and a fleet of modern trucks. Like the Derunapht (described below) Derutra possesses a complete monopoly of certain branches of shipping, especially: all reparations deliveries, all exports on Soviet account, and all shipments through the seaports in the Soviet Zone of Occupation. The transshipment installations in the seaports are administered exclusively by

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Derutra. Derutra also enjoys many privileges in other respects; it can practically be said that Derutra has an actual monopoly over all international shipments into and out of the Soviet Zone of Occupation. Considering the great volume of the traffic and Derutra's privileged position, considerable profits must be accruing to the Soviets.

2. Derunapht (Deutsch-Russische Naphta A G -- German-Russian Fuel Corporation), a company for trade in fuels. This enterprise also operated in Germany previously and was revived in 1948. Derunapht operates with a basic capital of 20 million marks. By various transactions it has managed to acquire, to some extent under heavy pressure from the authorities, a great many of the gas stations in the Zone. Today Derunapht has a newtork of 800 gas stations, which is to be still further expanded during 1949, and an extensive park of tank cars. After eliminating the oil-trading companies which were foreign-owned, it now controls considerably more than half of the entire turnover of fuels in the Soviet Zone of Occupation. In particular, all fuels produced by the SAG's are marketed through Derunapht.

3. Intourist, Ltd.

This company was organized to handle foreign tourists in the Soviet Union. It operates three hotels and restaurants in Berlin and ten hotels and restaurants in other towns in the Zone. The sale of food and drink in these establishments is made at very high prices. Primarily foodstuffs produced in the Zone itself are used, which are therefore obtained by Intourist at very low prices. In addition Intourist, Ltd. has the objective of utilizing international tourist traffic in the Zone to obtain foreign exchange. For example, during the Leipzig Fair it operated hostelries in which food and drink were obtainable only for foreign exchange.

4. The Guaranty and Credit Bank, in Berlin, which is the banking exponent of the Soviet faction in the Zone. This bank was founded in 1922, and was previously never very important. Its former sphere of operation was the financing of foreign trade between Germany and the Soviet Union. It was taken over by the Soviets and has since experienced an extraordinary

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increase in activity. Just during the period between 31 December 1946 and 30 June 1947 its balance increased from 898 million RM to 2,095 million RM. Its share capital amounts to 150 million marks. It has branches in Leipzig, Dresden, Chemnitz, Erfurt, Halle, Magdeburg, Potsdam, Saalfeld, and Schwerin. All payments in connection with foreign trade shipments in the Soviet Zone of Occupation are made through this bank, and its activities also include the financing of the SAG's and the Soviet trade companies. It has thus become a major economic factor of considerable importance.

In all these Soviet enterprises all the higher positions are naturally filled exclusively by Russians.

5. Deliveries from Current Production

a. General

Soon after industrial production was resumed in the Soviet Zone of Occupation the German economic and administrative offices were faced with the fact, which had not at first been recognized, that the Occupying Power was not limiting itself simply to the seizure of industrial installations through dismantlings but was also commandeering the greater part of current industrial production for its own use. These "reparations from current production" have since become the decisive factor in the economic configuration of the zone, and also, as indicated at the Council of Foreign Ministers in London at the end of 1947, one of the most important problems of international politics. For the Soviet Zone of Occupation itself the crux of the problem is the fact that a significant portion of the total industrial production is commandeered under the heading of "reparations", also the fact that in addition to the actual reparations there are other sorts of deliveries to the Occupying Power in various forms and to various destinations. To be sure, the Soviets themselves carefully distinguish between these deliveries and the actual reparations, but in their effect on the national economy the two types of deliveries are identical. The result of this policy, of the Soviet Occupying Power, which was in no way planned for in the Potsdam Agreement, is that a very significant portion of the industrial production of the Zone and a considerable part of other production (sugar, wood) is commandeered by the Occupying Power and is consequently not available for the German economy or for covering the requirements of the people.

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Since 1945 the Occupying Power has developed an ingenious system of various categories of Soviet "requirers" with a scale of priorities, grouped approximately as follows:

a. Actual reparations deliveries

b. Deliveries to the Red Army and its affiliated agencies

c. Deliveries for the special Soviet program

d. Deliveries to Russian trade companies.

The formal difference among these categories, which is always strongly emphasized by the Russians, is the fact that the real reparations deliveries are not paid for by the Occupying Power but by the German Land government, whereas deliveries in the other categories are paid for in German money by the Soviet recipients. This payment in German money, however, means nothing so far as any difference in the effect on the national economy is concerned; in all cases deliveries are made from the production of the Soviet Zone of Occupation without countervalues being furnished.

The cash for the payments comes primarily from the enormous sums which the Finance Administration of the Zone has to turn over to the Soviets. Other sources of funds of the Soviet Military Administration are discussed in Section I, 10.

The money which the Russian agencies use to pay for these deliveries is thus obtained in any case without any countervalue being given which would accrue to the interest of the economy of the Zone. It is especially important to emphasize the fact that economically the reparations deliveries and the other deliveries are identical, because the Russians, if they should ever prepare a statement, as they have often promised, concerning what they have obtained from the Zone of Occupation, would undoubtedly try to limit it solely to the actual reparations, which, however, constitute only a part of the actual amount they have obtained. In 1946 the proportion of real reparations was considerably higher than that of the other deliveries to the Occupying Power. However, during 1947 this situation changed greatly. It is known that at the beginning of 1947 Marshal Sokolovski gave the heads of the SED assurances that reparations from current production would be

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appreciably reduced in 1947 and that particularly consumer goods manufactured from German raw materials would be exclusively for the use of the German population. Formally this promise was kept to the extent that the actual reparations were reduced. Actually, however, there was no change, since the reduction in reparations was paralleled by a corresponding increase in the other categories of deliveries to the Occupying Power. The Occupying Power's total share in the current production of the Zone was therefore certainly no less in 1947 than in 1946. If an accounting of amounts actually obtained by the Occupying Power were to be made in such a way as to correspond to the facts, it would be necessary for it to include, in addition to the actual reparations, also the total of other goods and services obtained from the Zone according to their real values. Not until 1949 was there any more or less noticeable relief in the burden on the Soviet Zone of Occupation. However, this burden is still far in excess of the 12.6 percent of gross industrial production (or 25 percent of net production) which has frequently been mentioned by leading SED politicians during the past few months.

The extraordinarily large number of Soviet recipients involved is due to the fact that, for example, the reparations plan for Land Sachsen for the second quarter of 1947 lists the following Soviet recipients in addition to reparations in the narrow sense:

Red Army (GSOW) -- APO unit 61963

GSOW trade network (trade network of the Red Army)

SMAD Administration for Foreign Trade

SMAD trade network

Ketsch (special program for construction of barracks and similar projects)

Science and technology (Soviet construction and development bureaus)

Soviet Corporations

Horti (a Soviet trade company)

Disarmament administration (that is, for dismantling)

Intourist (Soviet Union's travel bureau)

Achu (Soviet Navy's trade company)

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Voyentorg and Ossobtorg (Red Army trade companies)

Exportljon (Soviet trade company)

Laeno-Export (Soviet trade company)

Commandaturas

APO unit 27304 (uranium mining project)

Miscellaneous.

The effect of these claims of the Occupying Power is that a very considerable part of total production cannot be used to cover German civilian requirements or for export on German account or for interzonal trade, particularly because all deliveries to the Occupying Power take unrestricted priority over all other types of disposal. The distribution plans, which include deliveries to the German economy and population, generally refer only to the regular production quota. If production is below this figure, the German requirements go unsatisfied, even though definite amounts for them were "planned".

The satisfying of Soviet claims, especially actual reparations deliveries, is strictly controlled by the Occupying Power. Every plant director in a plant which has been given Soviet orders -- and that includes the majority of all industrial plants -- has long since become accustomed to hearing the word "sabotage" mentioned frequently in his dealings with his Soviet control authorities whenever for some reason or other a deadline cannot be met precisely. Offenses against the precepts of the Occupying Power are strictly punished; the Occupying Power even goes so far as to imprison the plant manager involved and to close down and expropriate his enterprise.

If, as will be mentioned later in greater detail, an average of perhaps 70 percent of the industrial production is requisitioned over a long period of time by the Occupying Power, this means that in spite of considerably greater utilization of capacity than in the Western Zones there are no appreciable quantities of products available for German requirements. After about half of the total industrial capacity had been torn down for the benefit of the Occupying Power by the time the dismantlings described in a previous section were completed, the Occupying Power has managed to draft

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nearly all of the remaining capacity of men and machinery into its service at times, and a considerable percentage of it even at present, by developing the system of deliveries from current production.

It is extraordinarily difficult to determine the actual extent of these deliveries, since the Soviet agencies surround their claims with a cloak of deepest secrecy and attempt to disguise them so far as they are able. In spite of that there are enough facts and figures which have become known to permit a more or less accurate picture to be obtained.

b. Actual Reparations Deliveries from Current Production

The following section is concerned with those deliveries from current production which are formally recognized by the Soviets as reparations. The following figures have been compiled from various sources:

Value of Actual Reparations Deliveries

(In Millions of Reichsmarks or East Marks)

Period	Total (estimate)	Land Sachsen	Sachsen-Anhalt	Thüringen	Brandenburg	Mecklenburg	Berlin, Soviet Sector
1945					5,075		
1946	16 - 1800	622 60[1]	about 360[3]	333	92.34		
1947	12 - 1300	364[2] 60		236[4]	45.53		Over 160[5]
1948	13 - 1500				70.39[6]	98.3	

1) These 60 million represent an estimate of the services of the Leipzig graphics industry for the Occupying Power.

2) Deliveries for the first half of 1947 were 182 million RM. It was assumed that the figure for the entire year would be twice that amount. As in the previous year, a figure of 60 million RM was estimated for services of the printing industry.

3) Figures are known for the total deliveries through 30 November 1946 and for the third quarter of 1946. The figure for the entire year was estimated on the basis of the known figures. The considerable values for reparations deliveries of sugar are not included.

4) Estimate based on figures in various plans.

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5) Only the deliveries of the plants under the "German Trust Administration"; these, however, represent the majority of the large plants in East Berlin (except for the Soviet Corporations).

6) Delivery quota for 1948.

On the basis of the figures given in the table and other known facts the following picture may be drawn of the development of reparations deliveries:

Reparations deliveries were started on a moderate scale during the last quarter of 1945, when production in the Soviet Zone of Occupation began to develop slowly, and increased rapidly during 1946. This increase in reparations deliveries ran parallel to the increase in industrial production, which at first, under the influence of the Occupying Power, developed considerably more rapidly than in Western Germany, within the scope of possibilities, which were seriously affected by the extraordinarily large amount of dismantling. Real reparations actually reached their maximum in 1946. The extraordinarily severe winter of 1946/47 meant a considerable set-back for industrial production in the Soviet Zone of Occupation, which was only gradually overcome during the course of the year 1947. This was undoubtedly one reason why there was a reduction in the demand for actual reparations in 1947. Another reason was the fact that because of the extraordinarily large claims of the Occupying Power on industrial production in 1946 extraordinarily little remained for the German economy and population of the Zone. For example, the supply of textiles, shoes, etc, for the great majority of the population was practically nil. As a result, even the Soviets realized that they could not continue to drain out so much over a period of time.

In any event it is a fact that in 1947 reparations as such were reduced, as is shown particularly by the figures given in the table for Land Sachsen and Brandenburg. However, there was very little relief for the population, since at the same time there was an appreciable increase in procurements in other forms, especially in purchases made by the Soviet trade companies. Altogether it may be assumed as very probable that goods and services obtained by the Occupying Power were not appreciably less in 1947 than in 1946.

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In 1948 industrial production at first increased somewhat further. During the last quarter there was an observable tendency toward a decrease, as the result of the counter-blockade. Altogether industrial production for the year, allowing for price changes, must have been about 10 to 15 percent higher than in 1947. On the basis of various indications it may be assumed that actual reparations deliveries in 1948 increased in about the same proportion with respect to 1947.

No exact figures are available so far for 1949. However, various factors lead to the conclusion that reparations deliveries for 1949 will be about the same as the previous year. One particular indication is the fact that leading SED politicians repeatedly emphasize that the figure for reparations deliveries is fixed and that any further increase in production would therefore accrue unconditionally to the benefit of the population of the Zone. There has never been any mention in these speeches, however, of any reduction in reparations deliveries. If there were any reduction, the SED propaganda would certainly have made good use of it. On the other hand a number of factual reports from industry in the Soviet Zone of Occupation indicate that aprarently there has not been any increase in reparations deliveries either. Observations made of the transportation system also indicate that for some time shipments of reparations goods have remained steadily at about the same level.

On the basis of this analysis the following total figures can be estimated for reparations deliveries since the beginning of the Occupation:

1945	insignificant
1946	1600 - 1800 million RM
1947	1200 - 1300 " "
1948	1300 - 1500 " " or east marks
1949, first half	700 - 800 " " "
Total (not including 1945)	4800 - 5400 million RM or east marks.

It must be added that these figures, because of the lack of precise statistical material and the many statistical difficulties involved in this estimate, can naturally only indicate the general magnitude. On the other hand, it can be stated with certainty that the actual amount of reparations

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as such during these years cannot differ significantly from the figures given. There is, however, a high degree of probability that the figures given should be assumed to be minimum figures, since probably there are certain items, especially agricultural and forestry products, which are [illegible] included only in part. For example, it was possible to determine that the figures for Thüringen do not include the very considerable deliveries of timber from this Land on reparations account.

This estimate is authenticated on the financial side (see Section I, 10) by the fact that the budget of the Zonal Administration (that is, the Central Finance Administration) allocated 1,034.74 million east marks for expenditures for reparations for the period from April through December 1949. This would correspond to an annual sum of 1380 million east marks, or very close to the amount which was calculated above for 1948 by very different methods.

But it is a very important fact that the actual value of reparations deliveries is appreciably greater, because the prices calculated by the Soviets for reparations deliveries are too low. Basically [illegible] the only prices recognized by the Soviets for any reparations deliveries are the ceiling prices of the end of 1944 (see Section I, 8). It can be assumed that on the average the prices recognized by the Soviets should be increased by about 50 percent in order to obtain prices which correspond to production costs.

Types of reparations deliveries

Appendices VI through VIII contain the following statistical surveys showing the nature of reparations deliveries:

Appendix VI: Reparations deliveries from Sachsen in 1946

Appendix VII: Reparations deliveries from Thüringen, first quarter 1947

Appendix VIII: Reparations deliveries from Mecklenburg in 1948.

An analysis of these data shows that no branch of industry which is of any interest to the Russians has escaped reparations. In order to obtain the greatest possible amount of reparations the SMA has influenced the production plans of the individual Laender in the Zone to a great extent so that mainly goods which are "suitable for reparations" would be produced. For example,

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they have held back the production of most building materials for this reason, because only few building materials come into consideration as reparations. During 1946 and 1947 consumer goods played a large part in reparations deliveries, especially textiles, clothing, and shoes. At the beginning of 1947 Marshal Sokolovski had announced to the heads of the SED that in the future no vital consumer goods, particularly no textiles or shoes, would be shipped as reparations. However, this promise was not kept in actuality. Many authentic documents, and also the reparations plans for Brandenburg and Mecklenburg for 1948, indicate that shipments of textiles continued that year also. To be sure, it appears that since the beginning of 1949 reparations deliveries of textiles have actually been halted or at least greatly reduced; but the purchase of textiles by Soviet trade companies still continues.

It has frequently been denied by SED leaders that foodstuffs have been commandeered as reparations. However, it can be determined with absolute reliability that they have been, at least so far as sugar is concerned, mainly from Sachsen-Anhalt. Altogether 240,000 tons of sugar were shipped out during the 1945/46 harvest year, 265,000 tons in 1946/47, 270,000 tons in 1947/48. In spite of the considerably improved harvest in 1948 the sugar rations for the populace of the Zone were increased only unappreciably. This leads to the conclusion that the shipments will continue in 1948/49.

Various reliable reports indicate that other foodstuffs also were furnished the Occupying Power in not inconsiderable amounts, especially canned meat, fish, fruits, and vegetables. However, in this case it cannot be definitely determined whether these were actual reparations or deliveries for the Red Army. It is reliably known that raw alcohol and potato starch were also shipped as reparations; it is probable that there were also shipments of grain and livestock. The Occupying Power gave no consideration to the poor nutritional level of the population in taking these foodstuffs as reparations. (See Section V, 3).

The great exports of wood also are of serious consequence for the economy of the Zone (these exports are on Soviet account, and include, for example, shipments even to England). The Soviets' demands lead to excess felling, often

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to stripping, which has a very disadvantageous effect on both forests and climate. In addition, an important raw material, one which is particularly significant in view of the shortage of other materials, is not available in sufficient quantities for the industry of the Zone. This applies not only to the demands for logs and sawn timber but also to wood products, especially standard wooden houses, for which a large-scale reparations program has been under way since 1946. The Soviet Union also commandeers considerable quantities of scrap metal from the entire Zone (including the Soviet Sector of Berlin), and also potash, and building materials such as cement, and large quantities of fuel.

A not inconsiderable, and apparently constantly increasing, part of reparations deliveries consists of armaments or contributes indirectly to Soviet armaments. In particular, during the first half year of the Occupation a number of armaments plants were still operating for the Occupying Power, although actually they were destined for dismantling or destruction. This was especially true of plants which produced high-grade special finished goods in the field of armaments, such as V-weapons, aircraft, etc. It was only the prospect of an Allied inspection of the destruction of the armaments plants which caused the Soviets to decide, in late fall of 1946, to evacuate these plants to the Soviet Union. (See Section VI, 2). In spite of this there is no doubt that even today a not inconsiderable part of the industrial production is still directly for armaments purposes. Even some branches of industry are drafted which would not, in their nature, engage in war production. For example, starting at Christmas time 1946, a high-pressure program for the production of parachutes was put through in the Chemnitz textile industry, and considerable quantities of uniform material and fur caps were also manufactured there for the Red Army.

Since 1948 the industry in the Soviet Zone of Occupation apparently is being drafted to an increasing degree for the expansion of the Russian Navy, especially the large-scale submarine program. Diesel engines and metal parts for submarines are being manufactured in two SAG plants and electrical installations for submarines in a storage battery factory. Motor torpedo boats are

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being built in several shipyards in Mecklenburg.

Altogether, from the data so far obtained concerning the armaments production for the Soviets in the Soviet Zone of Occupation, one gains the impression that the deliveries from the Zone are of importance primarily in the highly skilled branches of industry (such as communications equipment, certain gun parts, aircraft parts, direction-finding equipment, etc.). The raw materials supply in the Zone has so far been too small for intensive production of armaments materiel.

It is interesting that the Soviet Union has to some extent placed the German reparations deliveries at the disposal of her Southeast European satellite countries. For example, trucks and special cars for transporting tanks were furnished to Bulgaria and Yugoslavia. It is also quite certain that some of the reparetions goods are sold on foreign markets on Soviet account.

Relationship between reparations and SAG deliveries:

The opinion is often expressed that the production of the Soviet Corporations in the Soviet Zone of Occupation is all sent to the Soviet Union and not recorded as reparations, so that this production should be calculated in addition to the other reparations deliveries. This is not correct. At least some of the SAG deliveries to the Soviet Union are recorded as reparations deliveries and are consequently paid for by the land governments, for in the various reparations plans a number of products are included which definitely come from SAG deliveries. The reparations plan for Mecklenburg in Appendix VIII shows this especially clearly, since it includes also the figure for the SAG plants' share in Mecklenburg's reparations deliveries; they amount to 31.6 million, or about one-third of the total.

c. Deliveries to the Red Army and Navy

The extraordinary burden on the Soviet Zone of Occupation is the result, as already pointed out, not only of the reparations deliveries in the narrow sense but also of the deliveries to the Red Army and the supplemental purchases of German goods by Soviet trade companies. The statistical difficulties involved in reporting these other categories of deliveries are even greater

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than in the case of the actual reparations, since the statistical data available are much less comprehensive. The least statistical material is available concerning the purchases by the trade companies, since for the most part they are outside the scope of the Plan and apparently even the German authorities in the Zone cannot obtain a clear survey of what they actually amount to. This was especially true for the year 1946, when the purchases for the most part were made in a very irregular manner. For the years 1947 and 1948 plans have actually been made and are to some extent known; but whereas deliveries to the army, after the confusion of the early postwar period was overcome, generally corresponded fairly closely in actuality to the requests previously submitted, the purchases by the trade companies continued to remain to some extent shrouded in darkness even during this later period.

The Plan in Appendix IX for Thüringen's deliveries to the Red Army in 1947 gives some information concerning the composition of deliveries to the army. The fact that the Zone itself has had to bear the entire burden of supplying the Red Army with food, and will undoubtedly have to continue to do so, is of particular significance for the economy and the supply situation in the Zone. Thüringen alone, the smallest Land in the Zone, had to furnish, among other items, the following agricultural products to the Red Army during the year 1947:

Bread grains	12,629 tons
Fresh vegetables	5,500 tons
Potatoes	8,656 tons
Meat products	3,080 tons
Animal fats	478 tons
Butter	600 tons
Fresh eggs	4,100,000
Sugar	4,536 tons.

According to a report in the Berlin newspaper "Sozialdemokrat" of 17 June 1949, the government of Land Sachsen received an order in June to furnish the following items to the Soviet Occupation Troops by 15 October 1949:

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Potatoes	23,000 tons	Leather	600 tons
Butter	14,000 tons(?) [sic]	Cloth	42,000 meters
Fruit	9,000 tons	Linen	23,000 meters
Grains	27,000 tons	Wristwatches	4,500
Meat	6,700 tons	Footstools	12,000
Milk	1,850,000 liters	Tables	1,500
Cheese, whole milk	10,000 tons	Bedsteads	3,200
Eggs	2,500,000	Horses	225
Hay	26,000 centners	Cows	140
Straw	12,000 centners	Pigs	450.

In addition, Land Sachsen was to furnish the following items for equipping the Soviet Army: 120,000 meters of telephone wire, 4,000 meters of cable, 32,500 telephone poles, 10,000 horseshoes, 225 sets of harnesses for horses, and 250,500 tons of fuel for heating.

From this, as from the figures in Appendix IX for Thüringen, it appears that the demands of the Red Army are not restricted to foodstuffs, but extend to industrial goods of the most varied types.

The construction of vehicles plays a not insignificant role in this connection, as do the chemical and rubber industries, the wood industry, and to a particularly great extent the textile, clothing, and leather industries. In addition considerable quantities of coal and fuel must be delivered.

However, in addition to the current deliveries the industry of the Zone is also constantly being drawn into "special programs", which frequently are very extensive. A particularly comprehensive program of this sort is the so-called "Wismar program" for outfitting ships for the Russian navy at the Wismar shipyard; the materials and installations needed must be produced by the industry of the Zone, especially of Sachsen and Thüringen, down to the smallest items. Another program of this sort is the barracks-building program known by the code name "Ketsch", and considerable quantities of wood are used for large-scale deliveries of collapsible wooden houses.

d. Deliveries to Russian trade companies, etc.

The Soviet trade companies active in Germany (see Section I, 4 e above)

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are integrated in the total program for deliveries from current production to a considerable extent. In the distribution plans for industrial production the purchases by the Russian trade companies appear as "deliveries to the trade network of the SMAD" or as "deliveries to the trade network of the Red Army". Although these deliveries are paid for by the purchasers in German money, they are still, as has already been emphasized, predominantly real economic losses for the Zone, since no counter-deliveries come from the Soviet Union. True foreign trade between the Soviet Zone of Occupation and the Soviet Union is developing independently, although to be sure it is also handled (to some extent at least) by the Soviet trade companies.

The utilization of the goods purchased by the trade companies is twofold: they are either marketed in the Soviet Union itself or are sold third-hand in foreign markets. This marketing in foreign countries has at times, according to various reports, especially from Scandinavia and South America, reached considerable proportions, especially during the early stages of the unsatisfied demand for goods immediately following the war. In some instances an attempt was also made to invent a Russian origin for these goods, for cases are known where the German producers were instructed to avoid marking the goods with any indication of origin; apparently the goods were then given Russian trademarks. In the case of exports the Soviet Union profits in three ways: first, she pays for the goods with German money which she has obtained without giving countervalue, from the payments made by the Finance Administration of the Zone; second, she profits from a considerable price difference, because the German producers are paid at the ceiling prices of the end of 1944, whereas the goods are sold on the foreign market at considerably higher prices; third, the Soviet Union obtains considerable amounts of foreign exchange by this means.

So far as the consumer goods which go to the Soviet Union are concerned, they are sold openly to the Russian people. In this case also the Soviet Union obtains considerable profits for the national treasury, since the prices in Russia are far above those which the German producer must sell for.

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Deliveries to the Soviet trade companies do not resemble normal business transactions; they are not (at least not all) concluded on the basis of voluntary business agreements but are dependent upon delivery instructions (so-called "Narjad"s) issued by the offices of the SMA.

A few data concerning the extent of these supplemental deliveries are included in the following Section.

e. Total deliveries

It must again be emphasized that all withdrawals from current production, whether they are formerly regarded as reparations deliveries or paid for in German money, represent an uncompensated drain on the production of the Zone and thus should in principle be added to the reparations account. The determination of the total amount of this drain is made more difficult by the fact that although the Soviet Union has indeed promised repeatedly to total up the German account "down to the last kopeck", no figures have ever been made public. However, on the basis of figures which have become known it is possible to estimate the total amount to some degree. It appears in this connection that the figure mentioned by Secretary of State Marshall at the London Conference of 1947 as the amount of the annual drain, 400 million dollars, (on the basis of an exchange rate of 3.30 east marks - one dollar), is appreciably too low.

According to the figures given above, this latter figure is not even as great as the value of reparations in the narrow sense, and is far below the value of the total deliveries of the Soviet Zone of Occupation.

Even in 1945, after production began slowly to resume, the Soviet Union demanded not unappreciable deliveries, even from stocks of goods on hand. The amount of these deliveries is completely unknown. For 1946 we have estimated above that the pure reparations amounted to 1600 - 1800 million RM. In addition, there were the deliveries to the Red Army and to the other Soviet consumers, the amount of which is not precisely known but which is apparently somewhere between 600 and 900 million RM. Therefore the total deliveries from current production from the Soviet Zone of Occupation can be considered to be between 2400 and 2700 million RM for the year 1946. This is equivalent to the maximum annual amount of reparations for

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all of Germany after the first World War, according to the Dawes Plan of 1924. In addition it should be noted that the prices used as a basis of calculation are those actually calculated by the Occupying Power, which, as already pointed out, are for the most part below the actual production costs of the goods delivered to the Soviet Union.

For 1947 we estimated the pure reparations as being somewhat less than the previous year, or 1200 - 1300 million RM. For this year figures are also known for the other deliveries to Soviet consumers from Land Sachsen. The planned amount was 166,869 million RM for the second quarter; during the first quarter the amount was somewhat lower than this, but for the third and fourth quarters it can be assumed that the figures were somewhat higher, since production increased slightly during that period. Thus a figure of about 600 million RM can be estimated for the year 1947 for Land Sachsen for deliveries to the Red Army and other Soviet authorities.

This means that the following are the total annual figures for Sachsen:

pure reparations deliveries		424 million RM
Red Army deliveries, etc.		600 million RM
Total:	about	1024 million RM.

A comparison with the year 1946 leads to the following conclusions:

1. The total plan for deliveries remained about the same in 1947 as in 1946.
2. There is, however, an appreciable change in the composition of the deliveries; the pure reparations deliveries now constitute a minority of the total deliveries, whereas the proportion for other Soviet consumers has increased greatly.

The significance of these deliveries so far as amounts are concerned may be clearly seen from the following figures;

In 1936 Land Sachsen's total exports amounted to 522.4 million RM. Thus at present, with a considerably reduced level of industrial production, the Occupying Power is demanding almost the same amount of goods in half a year as Land Sachsen formerly was able to export in an entire year.

In Land Thüringen the situation was somewhat different. The total deliveries for Thüringen are estimated at 402.48 million RM (in comparison

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with the quota of 448.48 million RM, which was not completely fulfilled). Pure reparations accounted for 236 million RM of this amount, deliveries to the Red Army for 45.291 million, and the Soviet trade companies and other Soviet consumers for the remainder. In this case, therefore, pure reparations accounted for about 58 percent, whereas they accounted for only 42 percent in Sachsen.

For the other parts of the Zone no precise figures have become known so far. On the basis of data available, however, it is possible to estimate that the actual deliveries amounted to 2400 - 2600 million RM in 1947 also.

For 1948 we assumed a value for pure reparations deliveries amounting to 1300 - 1500 million RM or east marks. Deliveries to the army and purchases by the trade companies remained at about the same level as the previous year, according to data available. These have therefore been conservatively estimated at 1100 - 1200 RM or east marks. This means a total drain on the Soviet Zone of Occupation for the year 1948 of 2400 - 2700 million RM.

Thus the total amount obtained from the Soviet Zone of Occupation was about 2½ to 2 3/4 billion marks (in prices calculated as of the end of 1944) for each of the three years.

This means that we can estimate a total drain from current production from the Soviet Zone of Occupation for the three years 1946 - 1948 at 7.2 to 8 billion marks (in prices calculated as of the end of 1944).

The extent of deliveries for 1949 so far defies any precise determination. The pure reparations deliveries, as mentioned above, apparently are remaining at the same level as the previous year. It can be assumed that the same is true of deliveries to the Army of Occupation. On the other hand, it appears that the purchases by the trade companies have dropped. Direct export deliveries, for which the Soviet Union receives the foreign exchange and the difference between the German prices and export prices, are not included here.

The deliveries from current production make up a very considerable portion of the net value of the industrial production of the Zone. A fairly exact calculation drawn up for deliveries from Land Sachsen for 1946 shows a proportion of at least 67.5 percent. This agrees fairly well with other

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data and estimates. It can therefore be assumed that in 1946 and 1947 the figure amounted to 60 to 70 percent of the net industrial production of the Zone.

Another calculation on the basis of the third quarter of 1946 shows the following proportional amounts commandeered for deliveries to the Soviet Union for the individual branches of industry:

Machinery construction	90 %	Construction of vehicles	90 %
Precision mechanics and optics	75%	Electrical industry	80%
Textile industry	84%	Clothing industry	75%
Leather products	90%	Cellulose and paper	49%
Leather shoes	90%	Cement industry	50%
Other shoes	35%	Production of fluorspar	70%
Wood-working	70%	Ceramic wall tiles	90%
Potash production	60%	Glass production	70%
Hardwood fiber boards	100%	Ceramic industry	80%.

One characteristic example is the following production plan for a Sachsen machinery factory (producing machinery for graphics plants) for 1947: Planned new production, 350,000 RM; of this, for direct reparations, 197,000 RM; export, 50,000 RM; interzonal deliveries, 43,000 RM; new production remaining for domestic use, 60,000 RM. The German economy in the Soviet Zone is therefore accorded 17 percent of the production of this machinery factory. Since in addition the requirements of the German economy are regularly given the lowest priority and can be satisfied only after the deliveries for reparations and for export have been fully covered, any underfulfillment of the plan is always at the expense of the German requirements. It is therefore no wonder that the supply of industrial goods for the Zone during 1946 and 1947 was not much above the zero point and that even today it is still highly unsatisfactory (see also Section V, 11). The following individual example also serves to show that at the beginning of 1948 the German population's share in one very important branch of industry was almost at the vanishing point:

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For the first quarter of 1948 for one important section of the textile industry in Sachsen, namely the weaving of fabrics, the break-down was as follows:

Value of planned production	112 million RM
Reparations (evidently including other deliveries to the Soviets)	72 million RM
Exports	31 million RM
Civilian requirements	9 million RM.

As the result of the gradual increase in industrial production the proportion of deliveries to the Soviets has certainly dropped somewhat during the years 1948 and 1949. In spite of that it may be assumed that on the average for industry as a whole more than half of net production still goes to the Occupying Power.

An indirect indication of the amount of the reparations burden is shown by the following:

Of the total credits granted by the Land Bank of Sachsen the following percentages were for credits for reparations or for deliveries to the Occupying Power:

October 1946	55.5 %
November 1946	58.2 %
December 1946	51.3 %.

However, the above figures represent only credits for direct deliveries; they do not include credits granted for production which indirectly contributes to deliveries to the Occupying Power (for example, for the production of basic materials, semi-manufactures, and production equipment).

An official report from Thüringen showing this Land's reparations for 1946 and the beginning of 1947 gives impressive evidence of the effects of the reparations deliveries:

"The delivery quota for reparations for 1946 was fulfilled only by taking over almost the entire production in Thüringen for reparations deliveries during the third and fourth quarters",

and elsewhere in the report:

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"The industrial capacity which Thüringen still has would be adequate, under favorable conditions, to fulfill the reparations requirements (for 1947) fully and completely. At the same time there would be nothing left over for the civilian population. However, the production plan also has to supply the Red Army with industrial products, and also the Soviet Russian trade network. Since the present materials situation permits the firms to utilize only 30 - 40 percent of the capacity, it is obvious that there can scarcely be any surplus for the civilian population.

"At the beginning of 1947 the Russian Occupying Power explained in writing that starting with the new year the reparations deliveries would no longer take first place but would be considerably reduced; first place would be given to production for the maintenance and replacement requirements, and next would come the civilian population. Reparations were to be in last place. Although these reports were sent to all governmental offices in Thüringen, practically no one has paid any attention to them. The picture has remained the same."

In summary it may be said that, with all due recognition of Germany's obligation to make good to the greatest extent possible the damage which she had inflicted, the requisitioning of goods from the current production of the Soviet Zone of Occupation for the benefit of the Occupying Power has gone far beyond any tolerable limits. The effects of these excessive requisitions will be discussed in greater detail elsewhere in this report. For the civilian population of the Zone it amounts to practically a state of misery, since not even the most urgent requirements of vital goods can be covered, much less an average European standard of living be attained. It is of no less consequence that the necessary expansion and reconstruction requirements of the economy can be only very inadequately met. New investments can be considered only when they are within the special sphere of interest of the Occupying Power.

The extremely heavy burden on the Soviet Zone of Occupation has a particularly unfavorable effect in that as a result the quantities of goods

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which are available for export on German account or for inter-zonal trade are much too small. As a result imports into the Zone of urgently needed foodstuffs and raw materials (leather) have so far remained far below the minimum necessary for a barely tolerable supply situation. The state of misery in the Zone is attributable in no small measure to the fact that the Occupying Power's requisitions have made it impossible for the Zone to participate sufficiently in world trade.

As is known, the Soviet Union demands from Germany a total amount of reparations amounting to 10 billion dollars, to be spread over a period of 20 years. Even if one ignores all amounts furnished so far, this would amount to 500 million dollars or 1,650 million RM (at the exchange rate of 3.30) per year. The foregoing discussion indicates that the Soviet Zone has turned over to the Occupying Power simply from current production during the three years 1946 - 1948 a total amount considerably in excess of these Soviet demands.

6. Purchase of Real Estate and Other Purchases

Without any doubt the amount of cash which the Occupying Power has currently at its disposal from various sources (see Section I, 10) is considerably greater than the amount needed to pay for deliveries from current production. An appreciable portion of the surplus is used to purchase economic values of various sorts in the Zone. The following are particularly to be noted:

1. Purchases of gold, silver, and valuables of the most varied types. Some of these items are also acquired through the "legalized black market" activities of the Rasno-Export, Ltd. in exchange for cigarettes and industrial products. (See Section I, 10 c). According to unsubstantiated estimates an amount of six to eight billion RM in cash is supposed to have been exchanged for precious metals and valuables in the whole Zone before the currency reform. It appears to be not inconceivable that at least part of the precious metals thus acquired was used or is to be used to obtain foreign exchange, that is, to bolster the Soviet Union's ability to pay for purchases on the world market.

2. Purchases of houses and property, especially in Berlin and other large cities in the Zone. A number of individual cases are known of this

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activity. However, it has not been possible so far to estimate even approximately the extent of Soviet real property acquired in this manner. Generally entries in the property records seem either not to be made at all or to be made in disguised form. For example, the Soviet-owned Guaranty and Credit Bank, Inc. frequently appears as the purchaser. In the Potsdam records, for example, this bank appears in six cases during the year 1947 as the purchaser of house lots with a total price of 880,000 RM. During the same period the Soviet Union's Ministry for Foreign Trade appears in four instances, the total purchase prices amounting to 1,205 million RM.

3. Acquisition of economic enterprises (Industrial and trade enterprises). This complements and expands what was said in Section I, 4 concerning Soviet ownership of industrial and other enterprises. For example, Derunapht (German-Russian Naphtha Company, Inc.) has acquired a considerable portion of the gas station network in the Zone by purchases against cash payments. Since such transactions become publicly known only in individual cases it is also impossible to make a statistical determination of the extent of this sort of acquisition of property.

In this way the Occupying Power has acquired considerable quantities of liquid assets which it can use in any manner for its own purposes, or has increased its economic influence in the Zone through the acquisition of real estate. The total sum expended for the purpose undoubtedly amounts to a considerable number of billions. The Russians' cash reserves, however, have not been exhausted by these purchases.

7. Export Profits

As was explained in the section concerning the drain from current production, the Occupying Power realizes export profits through the sale abroad of reparations goods or goods which have been delivered to the Russian trade companies. In addition to this, however, there are also profits which the SMA obtains from the direct exports in the real sense, that is, exports which are made directly by German plants in the Soviet Zone of Occupation and are handled by the Main Administration (formerly Central Administration) for Interzonal and Foreign Trade. The granting of permits for these

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export transactions was exclusively the prerogative of the Foreign Trade Division of the SMA until the end of 1947. Only since that time has there been a certain amount of shifting of responsibility to the German offices. Previously the prices were determined solely by the SMA. The German producer received in general only the ceiling price; occasionally small supplemental amounts were permitted. Since the export prices were generally considerably higher than the German prices, there was a significant margin of profit which accrued to the SMA. For example, in 1947 a special grephics machine was sold to Holland for 12,000 Dutch guilders, while the German firm which manufactured it received only about 12,000 RM for it. In addition, this export brought the Soviet Union an income in foreign exchange, since up to some time in 1948 exports from the Soviet Zone of Occupation (even without including those exports which were handled by the Soviet trade companies) were indubitably in excess of imports.

In 1947 exports were strongly forced by the SMA, evidently because of the Soviet Union's acute shortage of foreign exchange. Even the processing industries in the Zone worked to cover the Soviet requirements of foreign exchange. For example, in March 1947 an arrangement was made by the Russian trade company Exportljon for the processing of 10,000 tons of wool for England by the textile industry in the Soviet Zone of Occupation. The German processers received the ceiling price in German marks from Exportljon.

These export profits for the benefit of the Soviet Union, concerning which no statistical data are ever furnished by the Occupying Power, must also be added in with the reparations services of the Soviet Zone of Occupation. To be sure, their importance must not be overestimated, since for the most part exports for the benefit of the Soviet Union are handled through the Soviet trade companies or directly by the Administration for Foreign Trade in the SMAD.

During 1948 the Soviet Zone of Occupation's foreign trade for German account apparently became normalized in that imports increased -- even the SMA could not avoid this imperative requirement in view of the serious

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nutritional situation of the population and the shortage of materials -- and trade agreements were concluded between the Soviet Zone of Occupation and a number of other countries specifying a balanced foreign trade. At present, in addition to the uncompensated requisitions, the Soviet Union plays an important role as trade partner in the "normal" foreign trade of the Soviet Zone of Occupation. But even this foreign trade is handled in a manner which does not resemble normal commercial relationships; it is simply that the method of exploitation has been altered slightly. It is now handled through price adjustments. Reliable data reveal that at least part of the goods delivered by the Soviet Union, such as wool and cotton, are supplied at prices which are far above the world market prices. On the other hand, the ceiling prices which are applied to exports from the Soviet Zone of Occupation to the Soviet Union are considerably below the world market level. For example, the Soviet Union pays less than half the world market price for large quantities of sugar. She also permits her satellite states to benefit from these transactions. Poland, for example, pays only a little more than a third of the world market price for scrap obtained from the Soviet Zone of Occupation.

Although the exports from the Soviet Zone of Occupation still do not stem from an actual surplus production, but are obtained at the cost of a much too scant domestic supply, even these exports bring the Zone appreciably less real compensation than could be obtained by free participation in world trade. Even the present foreign trade of the Soviet Zone of Occupation must therefore -- at least in part -- still be described as economic exploitation.

8. Indirect Reparations by Means of Price Policies and Subsidies

A typical characteristic of the Soviet economic policy in the Soviet Zone of Occupation is the stubborn retention of fixed prices at the level of the ceiling prices of the end of 1944. This price policy is designed primarily to enable the Soviets to obtain the greatest possible volume of goods for a fixed sum of money (see Section I, 5). The following considerations also play a part:

1. If later a total sum should be set for the reparations to be taken

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out of the country, the amounts obtained to date and in the future should be set at as low a figure as possible (in which connection it should be noted that the rate of exchange frequently quoted officially of two RM to one ruble does not correspond in the least to the actual purchasing power parity between the two currencies, that the mark is greatly undervalued).

2. In the case of other acquisitions from current production the greatest possible quantities of goods are to be obtained with the cash available by means of holding prices down.

3. The same is true of purcheses of all types.

4. In normal export transactions the price difference has created and is still creating possibilities for supplemental profits for the Soviets, as explained in the previous Section.

5. Members of the Occupying Power receive more for their German money in private transactions.

6. German services which benefit the Occupying Power directly can as a result be paid for at very low rates, since ceiling wages are directly bound up with ceiling prices.

These arguments taken together certainly form a good and sufficient basis for the stubborn retention of the ceiling prices. As a result, however, the present price is to a great extent no longer adequate to cover the actual costs of production, since for various pressing reasons (poor mechanical equipment, individual production instead of mass production, low degree of utilization of capacity, poor labor productivity, higher prices for raw materials and auxiliary materials, etc.) these costs have increased greatly. In many plants there are regular losses as a consequence (see examples in Section I, 5). These losses can be covered in the following ways:

a. Public subsidies from public funds, as for example in the case of black coal and cellulose. At the end of 1947 almost 11 million RM were being paid out quarterly for cellulose production. The bulk of the paper and textile products produced from the cellulose went to the Occupying Power.

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b. Concealed subsidies from public funds (for example, the covering of losses of the "people-owned" plants).

c. Black market sales by the plants of part of the production in order to be able to cover the deficits incurred on the Russian deliveries.

Each of these methods means in the final analysis that additional German purchasing power must be diverted to cover the losses which are incurred in connection with reparations and other deliveries to the Russians as the result of the price ceilings. The Soviets thus obtain these goods at prices lower than the actual value of the goods (entirely apart from the frequently much higher world market prices). The difference between the production costs and the ceiling prices for all goods and services furnished to the Occupying Power thus constitutes nothing more than additional (indirect or concealed) reparations.

9. Covering the Losses of the SAG's

The Soviet Corporations are also affected by the discrepancy between production costs and the ceiling prices. They also incur great deficits as a result. Frequently the deficits amount to considerable sums, in accordance with the size of these plants (see Section I, 4 a). Large sums must be expended from German finances to meet these deficits for a number of SAG's; they are designated as "subsidies for price support". Since, as previously mentioned, the production of the SAG's benefits primarily the Soviets, directly or indirectly, these sums must also be regarded as additional reparations.

10. The Financial Sources of the SMA

a. Financial contributions and occupation costs

In the public statement concerning the value of reparations in the Soviet Zone of Occupation errors and misunderstandings frequently arise from the fact that the requisitions from current production are confused with the financial contributions, that is, money payments to the Occupying Power. Obviously there is a certain connection between the two amounts, inasmuch as part of the monetary payments are used to pay for the requisitions from current production. The financial contributions, however, are much higher in value than the

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requisitions from current production and are also used, as will be shown subsequently, for a number of other purposes. They represent actual values furnished by the Soviet Zone of Occupation to the extent that the Occupying Power uses them to acquire goods or services or obtains other values for them.

There are also no exact and comprehensive figures available concerning the financial payments to the Occupying Power. The nature of the payments is such that they are beyond any parliamentary control or any reliable public knowledge.

Another financial burden on the Zone is the direct payment to the producing firms, by German authorities, for reparations deliveries in the narrow sense. The Land governments were burdened with these expenses at first, whereas now the accounting is done through the Zonal budget. The prices paid are those calculated by the Soviets (much too low). If, for certain products, price increases over the level at the end of 1944 are permitted by the German price control authorities, the difference must be made up by the Land governments, since the Soviets refuse to recognize any such price increases for reparations deliveries.

The Occupying Power also acquired additional financial means during the early period of occupation by requisitioning sums from the treasuries of the regional bodies such as cities, towns and Kreise; such sums are very difficult to check on. During the fiscal year 1946/47 these financial requisitions were largely shifted to the Laender budgets, which thereby became subject to a heavy financial burden. In addition, however, considerable sums are still being demanded from the other public treasuries. A reliable professional compilation for the fiscal year 1946/47 estimates the total financial contributions of the Zone to the Occupying Power at 7,503 billion RM. Since all public expenditures for this period amounted to 10,715 billion RM, the percentage for the Occupying Power amounted to about 68 percent. Just in the budget of land Sachsen-Anhalt for fiscal year 1946/47 expenditures for reparations and occupation costs were indicated at 843,961,000 RM. In addition to the amounts demanded by the Occupying Power in advance, any surpluses which occured in the Land budgets also had to be delivered to the SMAD.

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With fiscal year 1947/48 the Occupying Power's demands were shifted to the budget of the Central Finance Administration (now the Main Administration for Finance of the German Economic Commission). From the Laender budgets, to which the taxes of the Zone flow first, very considerable sums must be turned over to the Finance Administration; without doubt in 1947 and 1948 practically all of these sums were in turn handed over to the Occupying Power. It has been pointed out that the costs of the central German administrative offices are not defrayed from these funds but from the surpluses of the communications system (railroad and mail service). However, these enterprises also had to make financial contributions to the Occupying Power, in an amount which may be assumed to be 300 to 400 million RM per year. The amounts turned over to the Zonal Finance Administration by the Laender amounted to:

For fiscal year 1947/48	5.2 billion RM
For fiscal year 1948/49	4.2 billion RM or east marks.

For the most part these sums can be considered equivalent to the financial contributions to the Occupying Power; there are in addition, however, the amounts already mentioned which must be turned over by the railroad and the mail service and also the miscellaneous payments by the public bodies (Laender, Kreise, towns) in connection with the occupation. The payments for reparations deliveries in the narrow sense are, however, included in these amounts, since they are openly charged against the amounts turned over by the Laender.

One example of these additional financial payments: The budget for Land Sachsen for fiscal year 1948/49 included among other items the following payments for the Occupying Power:

Construction for the Occupying Power	22.5 million
For outfitting of billets, etc.	12.5 million
For amortization of debts of the SAG plants which were contracted before the Soviets took them over	22.3 million.

Fiscal year 1949 includes only nine months (1 April through 31 December 1949). For this period a figure of 1,034.74 million east marks was stipulated for expenditures for reparations in the narrow sense (that is, for

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reparations deliveries from current production); projected for an entire year this would mean an expenditure of about 1.4 billion east marks. The expenditures of the Main Administration for Finance amounted to 2,769.48 million marks for the nine months, part of which, but apparently not more than a quarter, is now being used for German purposes (for example, subsidies). Including the amounts turned over by the communications system, the total amounts designated in the Zonal budget for the Occupying Power for the nine months may be estimated at about 3.1 to 3.3 billion east marks, or 4.1 to 4.4 billion east marks on the basis of a whole year. Thus the financial obligations to the Occupying Power amount to about the same as during fiscal year 1948/49.

It appears strange at first glance that the Soviet Zone of Occupation, with its economy so depleted, can manage at all to produce such large sums. The explanation is the fact that the financial system of the Soviet Zone of Occupation differs basically from the West German financial system, specifically because it is based to an extent never before known in Europe upon the principle of burdening the consumer. Up to the time of the currency reform the most important source of public income was the consumption of alcohol. One single tax, the tax on alcohol, contributed nearly 40 percent of the total income from taxes. Thus the Soviet Zone of Occupation at that time had a financial system such as was never known anywhere else in the world. Even in Tsarist Russia the brandy tax surely never contributed anywhere nearly such a high percentage of the public income. Before the second World War the income from the alcohol monopoly played only a very minor role in the German financial system, and this is still true in the Western Zones of Occupation.

This system possessed a certain advantage in that part of the surplus purchasing power was thus drawn into the public treasuries. To be sure, this would have been really effective from the point of view of currency policy only if this "free purchasing power" had been completely withdrawn or destroyed. However, this was not the case, since the greater part of the money which flowed into the SMA coffers was spent. The system could by no means be morally justified, since the scanty food rations for the civilian population

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were further jeopardized by the use of potatoes for the production of alcohol. To be sure, the official German offices have repeatedly maintained that only molasses and such potatoes as were not fit for human consumption were used for the production of alcohol. But a number of cases can be pointed out where edible potatoes were actually diverted into the alcohol distilleries.

After the currency reform part of the surplus purchasing power was destroyed and the market for liquor dropped steadily. In order to assure the financial foundation of the reparations system for the future, the system of "market splitting" and price differentiation has been used in the Soviet Zone of Occupation to a steadily growing extent; this is a system of two different markets for rationed and free goods, existing concurrently, with totally different price levels. Up to the time of the currency reform in December 1947 this was known to be typical of the economic and financial system of the Soviet Union, and its application in the Soviet Zone of Occupation indicates that in this respect also the process of bringing the Zone into line with conditions in the Soviet Union has made considerable progress. In the summer of 1948, on orders from the SMA, considerable quantities of cigarettes, strong beer, and liquor began to be produced; these were then sold unrationed at greatly elevated prices. In addition, the purchase of matches was permitted without ration cards, the price for a box of matches being increased to 20 pfennigs.

This principle has been used to an extraordinarily increased degree since the last quarter of 1948, as the result of the creation of the "free shops" and "free restaurants". The H.O. (Handelsorganization, or Trade Organization) was created as a state trade institution to be responsible for them. In these shops rationed foodstuffs, textiles, shoes, and industrial products of the most varied types were sold, unrationed, at prices which actually approximated those on the black market before the price reductions which had meanwhile occurred in some cases (however, in general the black market soon underbid them); they generally amounted to ten or more times the legal price. All goods which are available for the German population in excess of the completely inadequate legal rations thus now become a source of state income or a source of funds to be turned over to the Occupying Power, through the medium of the H.O.'s shops and restaurants.

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What considerable sums are involved may be seen from the fact that during the first months of 1949 the H.C. turned over an average of about 100 million east marks per month in profits to the Main Administration for Finance. The official version is that the investments planned by the SED within the framework of the Two-Year Plan are to be financed from these funds. To what extent that will actually be the case remains to be seen. From similar experiences in the sphere of reparations deliveries it can probably be assumed that the funds obtained will be available for this purpose only if the quota of financial contributions to the Occupying Power can be satisfied from other sources of income. Otherwise it can be assumed that the Soviet demands will also have priority in respect to finances.

In conjunction with the financial contributions the expenditures of the Laender and towns are very strictly checked by the SMA, in order to assure the ability of the financial economy of the Soviet Zone of Occupation to supply the contributions. Thus the direct intervention of the Occupying Power even today is much greater than in the Western Zones. What effects the tremendous financial demands have may be seen, among others, from the fact that in the case of the railroad urgently needed operating expenditures cannot be made because of the shortage of funds, ever though failure to make them seriously threatens operating safety.

There are also many other expenditures within the German government which directly serve Soviet purposes. The subsidies for the maintenance of the ceiling prices and to cover the deficits of the SAG's have already been mentioned as indirect reparations. The sums expended for these purposes permit the SAG's to pay over the g high rental amounts (see Section I, 4 a). To what extent the SAG payments, estimated above at 300 - 500 million marks, become a source of funds for the Soviets for expenditures within the Soviet Zone of Occupation cannot be stated. The greater part of them, as already pointed out, are transferred openly in the form of deliveries in kind from the SAG's to the Soviet Union.

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The considerable expenditures which Land Mecklenburg has had to make for the expansion of the Baltic harbors are also of the nature of indirect reparations, for these harbors serve predominantly the interests of the Occupying Power and their expansion would have been totally unnecessary were it not for the blockade of the Soviet Zone of Occupation relative to Western Germany.

b. Printing of Currency

Another source of funds for the Occupying Power has been the issuance of the Allied Military Currency, which was inbued with the flavor of compulsion. There are no precise data available concerning the amount of Occupation currency issued in the Soviet Zone of Occupation. There is no doubt, however, that it was considerably greater than in the Western Zones. The following appeared in the publication of the German Institute for Economic Research entitled "The German Economy Two Years after the Collapse":

"The Soviets appear to have not only issued but also put into actual circulation considerably more Occupation currency. In contrast to the Western Powers, the Soviet Military Administration never permitted the Occupation currency to be converted into rubles. Members of the Soviet fighting forces and administrative offices were thus always compelled to spend the sums of military marks which they were given, entirely apart from the consideration that in view of the comparatively short supply of goods at home they found much more attractive purchasing opportunities in Germany. In addition, comparatively large amounts of Occupation currency were put into circulation as the result of purchases made by official Soviet offices and companies in the course of business dealings. Authentic data concerning the amount issued by the Soviets are not available, however, The Americans have frequently published figures which indicate that the amounts exceed by several fold the amounts issued by the Americans, and German estimates in some instances are as high as 20 or more billion RM. It is true that in the light of many indications such amounts appear to be exaggerated, but it may nevertheless be assumed that the German currency in circulation increased up to, say,

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the beginning of 1946, by at least 12 billion marks as the result of the addition of the Occupation currency."

Not infrequently the opinion is voiced that even additional Reichsbank notes were printed by the Occupying Power, using the original plates which apparently were picked up by the Russians. There are no real indications of this. It was, to be sure, rather striking that one of the most important German currency-printing companies, the firm of Giesecke and Devrient in Leipzig, which had been badly damaged by air attacks, was rebuilt at an accelerated tempo on Russian orders shortly after the beginning of the Occupation.

c. Russian Sales on the Black Market

At times (especially in 1947 and at the beginning of 1948) the legalized black market sales of rationed goods through the Russian trade companies, especially Rasno-Export, at prices many times higher than the legal prices, constituted another source for the procurement of considerable amounts of funds. Special shops were set up in the Soviet Sector of Berlin and in most of the other large cities in the Zone to handle these sales (some of them under the name of "Tauze" (a contraction of "Tauschzentrale, G.m.b.H.", or "Barter Center, Ltd."). Formally these shops were operated by private persons, but they were obviously under the special protection of the Occupying Power, since the German price control authorities had no jurisdiction over their sales. Cigarettes were the principal item in such sales, but textiles, shoes, and industrial goods of all types, including for example bicycles, were also sold. The sales produced some very considerable profits, since the goods sold were mainly those produced in the Soviet Zone of Occupation and purchased by the Russian trade companies at ceiling prices.

This legalized black market is just as characteristic an example of the application of Soviet economic methods as the present system of HO shops (two co-existing markets with different price levels). Most of the German population disapproved sharply of these methods, especially because of the inequitable nature of the distribution of the few available goods. In some

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instances the Russian shops were even blown up or otherwise demolished. Some of the shops were closed as the result (especially in Berlin), but most of them were soon reopened; however, they disappeared from the picture entirely in the spring of 1948.

The nature of these transactions may be observed particularly from the fact that originally sales were made only against valuables (jewelry, precious metals). For example, in the "Tauze" shops in Leipzig the purchaser received 140 cigarettes for one gram of pure gold, 500 for a gold ten-mark piece, or 15 for a silver five-mark piece. When the transition was shortly made to cash sales (for example, in Leipzig, 24 cigarettes for 35 RM), the money thereby obtained was obviously utilized by the Rasno-Export company to pay for the goods purchased from the German producers. Without doubt the precious metals taken in served for the acquisition of values which the Soviet Union could redeem internationally, for the Russian trade companies are practically state property and their profits thus accrue to the Soviet state.

d. Utilization of the Funds

Following are the principal uses to which the collossal sums of German money obtained by the Occupying Power in the ways mentioned are put:

1. Payment for German goods and services rendered to the Red Army and its subsidiaries.

2. Payments of other costs of the Army of Occupation. This included particularly the fairly high pay, especially to officers, during the first few years, which thereby afforded them the opportunity of purchasing German goods.

3. Payments for purchases by the Soviet trade companies, insofar as the latter did not obtain funds for this purpose through their own (black market) transactions.

4. Payments for those export goods which were not compensated by imports, foreign exchange equivalents for which accrued to the Soviet Union. Payments for these goods were made to the producers in the Soviet

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Zone of Occupation in German money.

5. Financing of the Soviet Corporations.

6. Financing of the Soviet uranium mining in the Erzgebirge in Sachsen.

7. Financing of other enterprises in Soviet interest, such as the Technical Construction and Development Bureaus.

8. Acquisition of German economic enterprises (industrial, trade, and transportation enterprises) outside the scope of the Soviet Corporations.

9. Financing of the purchases of houses and land and of gold, silver, and valuables of the most varied sorts, especially precious metals.

There is no doubt, however, that the tremendous sums, running into billions, which are at the SMA's disposal have still not been exhausted by these expenditures. It may be assumed that they are also utilized in the following ways:

10. Financing of the Russian cultural policy in the Soviet Zone of Occupation and other propaganda undertakings.

11. Financing of the SED and its subordinate organizations. They apparently have very considerable funds available, such as could scarcely be obtained simply from membership dues and other legitimate sources.

12. Financing of political propaganda in the Western Zones.

The funds may also possibly be used for:

13. Purchases under cover for Russian account in the Western Zones (securities, land, etc.)

(Opportunities for the two last-mentioned purposes have been considerably less favorable since the currency reform, because of the low value of the East Mark.)

There are still considerable sums of cash left over, which are held by the Occupying Power as cash reserves or bank accounts, as is indicated particularly by the balance of the Guaranty and Credit Bank. In the currency reform in the summer of 1948 these Soviet accounts (and also the accounts of the Soviet Corporations) were converted at the ratio of 1:1. This had the immediate serious disadvantage, from the point of view of currency policy, that the surplus purchasing power in the Soviet Zone of Occupation was by far

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not reduced to the same extent as in Western Germany or as would have been necessary to create a sound currency. It meant furthermore that the un-devaluated accounts of the Soviet authorities in the indebtedness of the banks in the Soviet Zone of Occupation constitute an overwhelming balance of power. Finally, it meant that the SMA thereby obtained control of a tremendous amount of purchasing power; no one can say when or how it will ever be realized. These Soviet accounts thus constitute an insecurity factor of the first magnitude in the economic future of the Zone.'

11. Exploitation of the Manpower of the Soviet Zone of Occupation

The requisition of a large part of the current production of the Zone as reparations etc. itself signifies the indirect exploitation of the Zone's manpower for Soviet purposes. However, the labor force is also made to serve the Soviet Union's purposes directly through the expedients of forced labor or deportation of workers.

a. Recruiting and Deportation of Workers

Directly after the end of the war a number of German scientists, particularly physicists, with emphasis on experts in atomic research (including among others Professors Hertz and Manfred von Ardenne) were taken to the Soviet Union. In October and November 1946 several thousand German workers were suddenly, under compulsion, evacuated under military guard to the Soviet Union from the Soviet Sector of Berlin and various cities in the Zone (Halle, Leipzig, Dessau, Jena, Mersebufg-Leuna, Bitterfeld, Wolfen, Stassfurt). This was the so-called "Operation Ossoviachim". Only specialists in various categories were involved, principally plant managers, engineers, chemists, technicians, also foremen and skilled workers. To a great extent they were personnel from plants which were simultaneously being dismantled and shipped to the Soviet Union, such as the Zeiss factory in Jena and various aircraft factories. Those deported were permitted, or compelled, to take their families and household effects with them. Since the deportation was conducted by methods of military compulsion it precipitated a public reaction throughout the world, especially in the Anglo-Saxon countries; this was probably the

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reason why no such mass operations have been conducted since then. The SMA and the SED circles maintained that only those workers who had voluntarily signed up for a working assignment in Russia had been taken. However, it can be stated on the basis of absolutely reliable information that this was not true for at least a considerable number of those deported, but that they were actually compelled to go by direct pressure. The total number of persons affected by these deportations cannot be determined precisely. Estimates from informed sources mention figures between 5,000 and 10,000 persons, including dependents. Some individuals or small groups had been taken to the Soviet Union even prior to "Operation Ossovischin", and others continued to be taken afterwards; it is difficult to determine in how many cases the trip was made voluntarily. In this way the Soviet Union has assured herself of the services of a considerable number of highly qualified specialists -- doubtless a very significant advantage for her scientific, industrial, and military-economic development.

Other Eastern Bloc countries have also been able to obtain the services of German specialists through voluntary agreements, with the permission of the Soviet offices. Yugoslavia, in particular, obtained by no means insignificant number up to the time of the Tito rift.

b. Forced Labor

The method of forced labor, which is common on a broad scale in the Soviet Union, has also been used to a considerable extent in the Soviet Zone of Occupation (see Section II, 4), particularly for the Occupying Power's direct purposes. Forced conscription for such work for the Occupying Power has reached its greatest extent so far in the case of uranium mining (see Section I, 4c). Of the persons who have been brought to the mining region of the Erzgebirge from even the most distant parts of the Zone since 1946, evidently considerably more than 100,000 in number, the greater part did not come voluntarily but on the basis of a forced conscription ("work assignment") issued by the Labor Offices on orders from the SMA. The methods used by the Occupying Power for the forced recruitment of labor are very

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strict and strongly resemble those which, with justification, were made the basis of accusations against the heads of the National-Socialist system at the Nuremberg War Crimes Trials (see also what is mentioned in Section I, 4c concerning the use made of family relationships).

Forced conscriptions on a large scale, although of a temporary nature, were also required for the dismantling operations. For many plants thousands of men were used for months at a time, for example the dismantling of the Brabag fuel plant at Magdeburg-Rothensee, where 15,000 were employed, or the Regis-Breitingen mining installation, which required 10,000. Other work projects requiring great numbers of workers who were obtained through forced conscription were the expansion of the Baltic ports and the shipbuilding program in the shipyards on Rismar and Rostock.

Especially severe measures were also used by the Soviets in those cases when labor was required quickly for various temporary purposes. For example, according to reliable reports trains were sometimes stopped and all physically fit men on them taken off for certain jobs, sometimes for a period of several days. To be sure, most of these instances occurred during the early period after the end of the war.

12. Taking Over of Patents and Results of Experimental Work

It has already been pointed out above (see Section I, 4d) that the taking over of German patents by the Western Powers is a constant theme in the Soviet and SED propaganda. However, these patents taken over in Western Germany are also available to the Soviet Union, whereas the latter practices no reciprocity with regard to all the patents, production methods, and results of experimental work which are being made available to a considerable extent to the Soviet Union from the industry of her Zone. Naturally this was done in the case of the plants which passed into Soviet ownership, which included particularly a number of the plants in the Zone which were leaders in scientific and technical matters (such as large-scale chemical plants, electrical equipment plants, the machinery industry, etc.). But in addition a great many technical and scientific research projects have been assigned to German scientists in the Zone, and furthermore research and development work on a grand

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scale has been carried out in the Construction and Development Bureaus (see Section I, 4d) and in the Soviet plants. The results of all these projects are utilized solely for the Soviet Union in a completely monopolistic fashion, and so far as is known they are available to the economy of the Zone itself only in those cases where direct projects for the Occupying Power are involved.

13. Total Results

1. A considerable part of the economic power of the Zone, especially the industrial power, has been diminished for the benefit of the Soviet Union (dismantlings, deportation of workers, etc.).

2. An appreciable part of the wealth available in the Zone (cash, valuables, securities, real estate, industrial installations) has passed into Soviet possession, by the following methods:

a. Acquisition by members of the Occupying Power

b. Confiscation of property on reparations account

c. Purchases made against German currency obtained by means of financial assessments against the Soviet Zone of Occupation or black market sales

d. Exchange against products manufactured in the Zone for Russian account.

3. A very large part of current production, especially current industrial production, is still being requisitioned by the Soviet Union. These requisitions are made in various forms, all of which, however, mean the same thing so far as their economic effect is concerned: an uncompensated drain on the German economy.

4. The Occupying Power commandeers large numbers of workers for specific assignments, especially uranium mining; many of these are obtained through forced labor.

5. An appreciable portion of the public income of the Zone finds its way by various means into the coffers of the Occupying Power; up to the time of the currency reform the alcohol tax contributed an especially high proportion of this income, at the expense of the nutrition of the Zonal population.

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Altogether, the economic measures executed in the Zone by the Occupying Power constitute a system of exploitation worked out down to the finest details such as would find few parallels even in the history of the Nazi war economy in the occupied areas during the Second World War. The economic potential of the Soviet Zone of Occupation is today still to a great extent in the service of the Soviet Union. For a long period of time only just enough of the output of economic activity has been furnished to the population and to the German economy in the area to prevent great numbers of people from actually starving to death or a direct economic catastrophe from developing. The Soviet share in production output is so great even today that the material level of the Soviet Zone of Occupation is far below the level in Western Germany.

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II. The Reorganization of the Economic System

Economic exploitation of a conquered country by the victor is nothing new in world history. The National Socialists also practiced such exploitation to varying degrees in the European countries which they occupied, although scarcely with the same results as the the Soviet Union is attaining at present in her Zone of Occupation. However, as the result of the peculiar character of the Soviet state, the Soviet economic policy in the Soviet Zone of Occupation is not limited to this exploitation but attempts in addition to effect a thoroughgoing reorganization of the economic system and the social structure, and has to a great extent realized it. The taking over of an area by the Soviet Union thus does not mean merely dominating it politically and exploiting its economic potentials but also a revolutionary economic and social reorganization in the sense of Bolshevist aims. This is the fate which the Soviet Zone of Occupation has now been experiencing for the last four years, which by its characteristic stamp differentiates it more and more from the Western Zones of Germany. If the SMA has made the Zonal boundaries more and more into economic boundaries and has made the separation from Western Germany more and more pronounced -- if the SMA has taken pains to postpone repeatedly a real peace settlement for Germany -- the reason is primarily the desire to be able to carry out the goal of revolutionary conversion undisturbed over a period of time behind the the protective "Iron Curtain". The entire political system in the Zone, created by the Occupying Power with the totalitarian Unity Party, the SED, in the driver's seat, fully subservient to the Occupying Power, serves mainly to bring about this economic-social revolution.

1. The Ideological Foundations

The propaganda of the SMA and of the SED contends that the goal of all measures taken in the Soviet Zone of Occupation is a "democratization" of the German economy in the sense of the Potsdam Agreements of 1945. Practical experience, however, indicates that the Bolshevik concept of "democracy" is quite different from the concept held by the Western Powers. The aim of the Soviet occupation policy is a "people's democracy" eastern

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style-- that is, in practice, a transitional form between the former European economic forms and eastern Bolshevism. The following are the main differences between this system and actual Bolshevism:

a. The retention of, or even considerable increase in, peasant ownership of land

b. The toleration of a certain amount of private ownership in industry, trade, and transportation, although to be sure it is a very much reduced amount and is being further contracted all the time.

The economic form which the Occupying Power found in the Zone was a nationally-directed economy based on private ownership of property and private enterprise. To be sure, even the National-Socialist system showed certain trends toward state ownership of capital and economic planning; they came into greater prominence during the war and the rights of private owners to make decisions concerning management of their properties were constantly being more and more restricted, but they were never entirely eliminated. The tendency toward agrarian reform which was originally included in National-Socialism was never actually realized. The former German economic order was by far not so greatly affected by twelve years of National-Socialist domination as in the Soviet Zone of Occupation by four years of Soviet Occupation.

The aims of the "people's democracy" are both negative and positive. On the negative side they include the elimination of privately owned sources of influence, particularly the ownership of large estates, and of large and medium-sized holdings in industry and trade; also the elimination of privately owned bank capital and insurance capital, and in conjunction with this the deposition of the former "ruling class" and the social groups connected with it.

The positive aims include the setting up of a planned economy along Bolshevist lines, in the closest possible cooperation with the other "people's democracies" and with the Soviet Union, together with the dominant participation of "the people" in the direction of the economy. This latter aim, however, is more propaganda than actuality. The actuality consists of

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[illegible] through state control of capital, with [illegible] politically reliable [illegible] to [illegible], part [illegible] actually of proletarian origin but having rapidly lost contact with the actual feelings of the people. By the concentration of all economic [illegible] power in the hands of the new, actually "people's democratic" state and its party with controls by those organs over an unlimited power over the entire existence of their "subordinates", the like of which has never been known in modern European history. The interweaving of the political system with the economic and social system creates domination over the "subordinates" of an unsurpassed manner, because in practice every possibility of [illegible] (on any even slightly elevated level) thus becomes dependent upon the will and the approval of the State and the "good behavior" of the subordinate is a prerequisite.

This entire development has become possible only because of the political and military power of the Soviet Union which stands behind it. This totalitarian, dictatorial system corresponds in no way to the will of the majority of the people. On the contrary, it can be said that during the years of the Occupation the rejection of it by the mass of the people has become more and more pronounced, has grown in fact into real hatred. This attitude is by no means limited to the former "ruling class" or to the middle classes, but is also found to a considerable extent among the working classes.

For precisely this reason the SED and the "mass organizations" subordinate to it are trying by every sort of propaganda and "reeducation" to bring the soul and spirit of the people under the effects of the system. All totalitarian propaganda media are utilized for this purpose, even more intensively -- and in even cruder form -- than under National-Socialism: press, radio, placards, meetings, "education" of all sorts. Contrary opinions can be expressed publicly only to the most moderate extent. Although the population has a healthy mistrust of these propaganda methods, acquired from experiences during the Nazi period, nevertheless the effect of such practically monopolistic control of "public opinion" over a period of time, expecially on youth,

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must not be underestimated. The special significance of the position of Berlin with regard to the psychological attitude of the people will be discussed in Section VI.

The position held by economic science and by the universities plays a not inconsequential role in this whole system; the latter in particular are the training centers for the future economic and national leaders. There are scarcely any professors remaining in the Zone, including the University of Berlin, who represent a non-Marxist theory of economics. Only Marxists in the strictest sense appear today as public speakers, and the attempt to convert the universities into Party schools is unmistakable. In addition there is an actual Party school in Kleinmachnow, near Berlin, for the "inner circle" of high functionaries. The "Social-Science Faculties", newly created since 1947 and unequivocally Marxist in outlook, are playing a special role as hotbeds for the new crop of leaders for the class of "political and economic managers"; the economic and social science faculties are gradually being absorbed into them. The great emphasis being placed on study for workers is intended to assure that the composition of the student body will be such as to constitute a suitable breeding ground for the growth of this Marxist seed. In this way it is believed that both among the masses and among the leaders conditions will be created which will constitute the prerequisites for an uncompromising realization of "people's-democratic" aims.

However, this "people's democracy" is regarded only as a transitional stage. The final goal is the complete Bolshevization of the economy of the Zone. The methods used to this end are with slight differences the same as in the "people's democracies" of Eastern and Southeastern Europe.

Neither the Occupying Power nor her dutiful SED permit themselves to be hindered in the execution of these measures by the fact that the measures make the reestablishment of German unity very much more difficult, inasmuch as totally different economic systems are thereby created in the Western and Eastern parts of Germany.

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2. The Economic-Political Formation of Policy

In the field of economic-political formation of policy, also, the purported "people's democracy" is nothing more than camouflage for a single-purpose, totalitarian, dictatorial system. The absolute focus of this formation of policy is the Occupying Power as represented by the SMA; a secondary center is the ruling clique of the new totalitarian Unity Party, the SED, which is completely dependent upon the SMA. All democratic and parliamentary forms have proved to be merely window-dressing, intended to camouflage the totalitarianism to the outside world.

The decisive organs of the Occupying Power are the Soviet Military Administration for Germany (SMAD) in Karlshorst and the Soviet Military Administrations of the individual laender, behind which are ranged the central authorities of the Soviet Union in Moscow. The authorities who have the final decision in matters pertaining to the planned economy are the "Economic Planning Divisions" of the SMAD and of the SMA's of the individual laender. The Economic Planning Divisions in the Ministries are their counterparts. Numerous experiences indicate that in matters of basic significance the SMA generally takes no action until it has received appropriate directives from Moscow.

During the first three years of the occupation the Occupying Power determined the order and legal regulation of everything which took place in the economic and social field, in great detail. The German self-government organs, even the laender governments, were only executive organs for the Occupying Power during this period. With few exceptions the legal regulation and direction of all basic matters (such as land reform, confiscation of property of "war criminals and Nazi leaders", expropriation of mineral resources, planned economy) were identical for all five laender; this fact indicates clearly that there was a uniform guiding principle behind them and that there could be no question of an independent formation of economic-political policy by the Germans.

Not until 1948 did the Occupying Power turn over functions of any real significance

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to German organs, principally following the reorganization of the German Economic Commission in February 1948. However, in all basic matters the wishes of the Occupying Power are still decisive, sometimes through the direct wielding of influence, sometimes by indirect methods through the SED and its Politburo. For example, it is apparent that orders of the DWK (German Economic Commission) -- at least those which pertain to basic matters -- are valid only if they have the prior approval of the SMA.

The German self-government organs are all under the influence of the SED. The leadership of the SED, however, is completely dependent upon the Occupying Power, the latter providing it with considerable material privileges. This is true also for other personalities in public life whose goodwill and indebtedness the Occupying Power wishes to incur. To insure its position of power, the SED has created a number of purportedly "unaffiliated" auxiliary organizations, the so-called "democratic mass organizations", which, however, are in reality completely dependent upon the Party. The most important of these from an economic point of view is the "League of Free German Trade Unions" (FDGB). The trade unions united in this League do not resemble independent workers' organizations but are set up on the Soviet pattern of state unions, with many public functions and prerogatives. The trade unions participate in all important economic bodies. They exert a strong influence on the distribution of industrial goods, and they have taken over a great number of producing plants. The Works Councils, which had assumed a position which, as the expression of the will of the individual bodies of employees, appeared to the SED to be dangerous, have now been replaced by the "plant trade union managements", which are completely dependent upon the FDGB.

Another organization of great economic and political significance is the Peasants' Mutual Assistance Union (VdgB), with its MTS (machine-lending stations) and its agricultural cooperatives. Other economic organizations which should be mentioned are the consumer cooperatives (which increase the competition for private enterprises to an ever-growing extent and have taken over a not insignificant number of expropriated industrial plants, especially

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food and beverage industries) and the hand-trades cooperatives. The chambers of industry and commerce have lost almost all their importance; they have become merely executive organs for the Economic Ministries of the Laender. Private enterprise, insofar as it still exists, has absolutely no economic and political representation of its own, since it is in the minority in the chambers of industry and commerce and the formation of associations among private businessmen is forbidden on principle and threatened with severe punishment.

None of these organizations displays the characteristics of a real democratic self-governing body. It is not possible for them to form any independent policies; they are simply parts of a comprehensive, uniformly directed and "executed", totalitarian system, which is organized from the top down, regardless of its attempts to appear democratic.

The development of the state economic administration progressed from a pronouncedly regional decentralization to strict centralization on a Zonal basis. During the first months of the Occupation German self-government was limited to local authorities. Shortly thereafter, however, the SMA set up Land administrations, the personnel of which were under the decisive influence of the Communist Party from the beginning. The administrative set-up which the Occupying Power had in mind at that time, in contrast to the present organization, was of a strongly federative nature; the individual Laender were characterized as "Federal Laender". The Land administrations undertook, with increasing success, to achieve direction of the economy from above. The fact that at the end of 1946 they were rechristened "Land Governments" consisting of Ministries instead of Divisions, as formerly, was indicative of their growing importance.

Comparatively early, in fact in the fall of 1945, the SMA made the first attempt to create central German authorities by setting up "Central German Administrations for the Soviet Zone of Occupation" for a number of special fields, especially those of an economic nature. The legal basis for the existence of the Central Administrations was found solely in an SMA order and in the powers delegated to them by the SMA; they were subject to no parliamentary control. The presidents of the Central Administrations were

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appointed by the SMA. However, they were not delegated any authority of any real significance. They were simply organs for the "coordination" of the activities of the land governments; they could not issue any binding instructions to the governments. In June 1947 the SMA made the first attempt at more strict centralization by setting up a "Standing Economic Commission for the Soviet Zone of Occupation". It was composed of the presidents of the central economic administrations and the chairmen of the FDGB and of the Peasants' Mutual Assistance Union. Their task was to be "the precise synchronization and coordination of the German administrations". However, since their actual field of competence remained rather obscure, they were able to attain the goal of coordination only partially.

Not until the issuance on 12 February 1948 of Order No. 32 by the Supreme Commander of the SMAD, Marshal Sokolovskiy, concerning "Composition and Powers of the German Economic Commission", was a central authority with real jurisdiction created for the entire Soviet Zone of Occupation. This basic statute was altered somewhat by Order No. 140 of the Supreme Commander of the SMAD, dated 26 November 1948, but only with respect to organization. The principal aim of the reorganization was to impart a semblance of democratic character to the German Economic Commission by expanding its "plenum". It is worth noting that the newly created authority was designated as the "German Economic Commission" without adding "for the Soviet Zone of Occupation". This corresponds to the Soviets' tendency to imply that the organs and institutions set up in their Zone are created for all of Germany (for example, the "German" People's Council, the "German" Bank of Issue, etc.).

The organizational set-up is now as follows:

The DWK's plenum consists of 101 [? - illegible] members. Forty-eight of them are elected by the land parliaments as representatives of the people; 15 are Party representatives; 10 are representatives of the "democratic mass organizations"; and the remainder consist primarily of the chairmen and secretariat members of the DWK and the directors of the Main Administrations. Experience thus far indicates that the plenum has by no means any effective importance, especially since it has not yet been publicly stated what rights

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the plenum has in relation to the chairman and the members of the secretariat. Its job is mainly to give the DWK the appearance of a democratic foundation which does not actually exist.

The so-called "secretariat" of the DWK actually controls the power. It consists of the chairman, Heinrich Rau, four deputy chairmen (Leuschner, Selbmann, Professor Kastner, and Steidle), and three other members; it also includes the chairman of the FDGB and of the VdgB. Organizationally the secretariat is at the apex of the economic administrative apparatus in the Soviet Zone of Occupation. During the past year the former Central Administrations have been incorporated into the DWK and renamed "Main Administrations", an outward indication of their changed status with relation to the "top level". Various of the Main Administrations are combined into groups with the top management in the hands of one of the members of the secretariat.

A few Main Administrations are directly subordinate to the chairman or to the secretariat. The present organizational set-up is as follows:

1. Planning (directed by Leuschner), with the Main Administration for Economic Planning and the Central Statistical Office.

2. Industry (directed by Selbmann), with the Main Administrations for Coal, Power, Metallurgy, Chemistry, Machinery Construction and Electrical Engineering, Light Industry, Minerals and Soils.

3. Procurement, Interzonal and Foreign Trade, and Transportation (directed by Handke), with the Main Administrations for Procurement, Interzonal and Foreign Trade, Transportation (with General Directorates for Railroads, Water Transport, and Motor Transport).

4. Agriculture, Trade, and Supply (directed by Steidle), with the Main Administrations for Agriculture and Forestry, Trade and Supply.

5. Finance, Post Office, and Communications (directed by Professor Kastner), with the Main Administrations for Finance, Post Office and Communications.

The Central Control Commission, created in the fall of 1948, is equal in rank to the chairman of the DWK. The two Main Divisions for Personnel Problems and Training and for Administration are directly subordinate to the

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DWI chairman. The Main Administration for Labor and Social Welfare, the "Committee for the Protection of the People's Property", and the "Information Division", which was newly formed in the fall of 1948, are directly subordinate to the secretariat of the DWK.

This organizational set-up bears a strong resemblance to the Soviet pattern. The Main Administrations correspond to the extraordinarily numerous individual ministries in the Soviet Union. However, the latter are more of the nature of specialized administrative organs; the actual political and economic decisions are made in much smaller committees than the secretariat of the DWK in the Soviet Zone of Occupation.

The duties and competencies of the DWK are specified in very general terms in both the SMA orders. SMAD order No. 32 of 12 February 1948 assigns the following tasks to the DWK:

1. Examination of the problems of the reconstruction and development of peacetime industry in the Soviet Zone of Occupation of Germany.

2. Coordination of the activities of the German Central administrations for the various branches of the economy.

3. Supervision of the prompt delivery of goods designated as reparations and the fulfillment of the requirements of the armed forces of the Soviet Occupation in Germany in accordance with the predetermined plan.

The formulation of these duties makes it clear that the SMA's primary intention was to set up a German office which would be responsible for deliveries to the Soviet Union. The DWK has the right to issue decrees and instructions which are binding upon the economy and the population of the Zone, and also to supervise the execution of such decrees and instructions. The fact that the DWK does not have the right to actually issue laws is of minor practical significance in view of the peculiarities of the state and administrative organization in the Soviet Zone of Occupation. Parliamentary control by the plenum of the DWK is a pure fiction, since according to a decree issued by the SMAD both resolutions of the plenum and decisions of the secretariat of the DWK are legally binding as orders and are valid for the Russian Zone.

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The long list of decrees, orders, executive directions, regulations, notices, and resolutions issued by the DWK since February 1948 (generally published in the "Central Official Gazette" which is issued in Berlin) shows that there is scarcely any phase of the economy which is not regulated by the DWK. Regulation on a Land basis has been completely overshadowed by regulation on a Zonal scale. This is true even in the field of finance. The Zonal budget, which is administered by the Main Administration for Finance in the DWK and from which the large payments to the Soviet Occupying Power are made, today shows higher figures than the total of the Land budgets.

As the result of the struggle for power between the centralist and federalist forces, the DWK has been able to strengthen its own position considerably; in April 1948 it took over under its own control the greater part of the "people-owned plants" which had previously been under the control of the Land governments. Altogether almost 1,800 plants were affected (mainly large plants), with a total of over 500,000 employees; only the less important plants remain under Land administration. The DWK also holds a leading position in the ownership of capital in the following institutions, among other, in the Soviet Zone of Occupation: The German Bank of Issue (the central bank of issue for the Soviet Zone of Occupation), the German Investment Bank, the German Trade Company of Berlin, Ltd. (the monopoly for the rationing of goods in the Soviet Zone of Occupation), the Ira-Berlin Trade Company (a trade company which was created in order to wield economic influence in the Western Sectors of Berlin), the Trade Organization's (HO) "Free Shops", the German Fertilizer Center, Ltd., the German Fuel and Petroleum Center, the Auditing and Trust Institute for the Soviet Zone of Occupation of Germany. The economic influence which the DWK exerts through these subordinate institutions is considerable.

The relationships between the DWK and the SED as the "state party" of the Soviet Zone of Occupation are extraordinarily close. The small circle of really influential persons, that is, the members of the secretariat, is composed almost exclusively of party-line Communists, most of whom were active in the Communist Party even before 1933. Since February 1948 political "purges"

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have been conducted repeatedly within the apparatus of the DWK. Members of the SED who had formerly belonged to the Social Democratic Party were particularly hit by these purges, and the professional qualifications of the personnel of the DWK have been quite adversely affected as a result.

The importance and the functioning of the Land governments have been greatly diminished as the result of the extraordinary strengthening of the influence of the DWK, which at present has the unmistakable appearance of a de facto Zonal government; this reduction in the importance of the Land governments is also due particularly to the fact that the two most influential men in the Land governments, the Brandenburg Economic Minister, Rau, and the Sachsen Economic Minister, Selbmann, are today the two leading men in the DWK and are working hard for centralism in their new positions. The fact that the Land governments are personally under the absolutely decisive influence of the SED means that they accommodate themselves without opposition to the "general line" of the economic policy as laid down by the SMA, the SED, and the DWK. The functions of the Land governments -- like those of the Land parliaments -- are now of a merely subordinate nature. The function of making decisions on economic policy in the Soviet Zone of Occupation has now been withdrawn from any parliamentary control, since the plenum of the DWK is of no importance and is no more than a parliamentary "stage-set", without even the very limited character of a true popular representation to which the Land parliaments can still lay claim.

Thus the economic system of the Zone as well as the political system shows totalitarian, anti-democratic traits throughout. It is dominated to the minutest degree by the Occupying Power, with the aid of a Party which has been unilaterally promoted by the latter.

3. Planned Economy

The application of the economic principles of the Soviet Union to the Soviet Zone of Occupation may be observed most clearly in the execution of a rigid planned economy, affecting almost all aspects of the economy. A start was made toward setting it up in November 1945, and a production and supply plan was set up for the fourth quarter of 1945, even though the basis

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for it was extremely uncertain. Since then economic planning has been implemented step by step. The high point of the plans so far was the setting up of the Two-Year Plan for 1949/50, a large-scale development and investment plan. It was set up by the SED and accepted by the DWK, which demonstrates the characteristic formation of economic and political policy.

The history of planned economy in the Soviet Zone of Occupation so far is characterized by numerous experiments and frequent changes in the methods used. It is not possible, however, to go into this in detail within the scope of this project.

The right of plant managers or private businessmen to make decisions concerning the conduct of business has been so greatly decreased by planned economy that it is now almost solely of a technical and organizational nature. The essence of this planned economy is the attempt to regulate all economic processes through a central office and to coordinate them into an overall plan. For example, a production plan is set up for industrial production which includes not only the total [illegible] "planned" production figures for each individual branch of industry, but also the the figures for the values or amounts for all individual products or groups of products. The execution of the [illegible] Plan is handled through production orders (production assignments) which prescribe for every individual plant what and how much it may or must produce. The planting plan plays a similar role in agriculture, likewise with a binding fixed amount for each individual enterprise. The production plans find their necessary amplification in:

1. The Materials Plan, and its execution through rationing and distribution of materials.

2. The Distribution Plan, which determines the use to which the goods produced shall be put; it is put into effect by means of delivery instructions, etc.

3. The Transportation Plan for the utilization of the available means of transportation.

4. The Import - Export Plan, which also includes barter with other Laender and Provinces of the Zone and interzonal trade.

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5. The Finance Plan, which specifies the distribution of the available operating credits and investment capital.

The requirements of the Occupying Power have first priority in every respect in the setting up of the plans. In fact, it may be said that to a great extent the purpose of the planned economy is to adapt the production of the Soviet Zone of Occupation to the Soviet Union's requirements.

Experiences so far have shown that the planned economy leads to considerable difficulties in the following respects:

1. Difficulties in proper "proportioning", that is, the synchronization of the various economic data, such as the relationship between the power, coal, and raw materials supplies and the volume of production, or between the volume of production and the volume of transportation.

2. Reduction in quality as the result of the emphasis on quantity, the consequence of the rigid production quota, the fulfillment/or overfulfillment of which is made the inescapable duty of every plant manager (likewise the "norm" for the performance of the individual worker). In order to avoid the unpleasant consequences which would be incurred if the "quota" were not reached, every plant manager would rather tolerate a reduction in quality, which is much less easy to check on than an underfulfillment in quantity. The reduction in the quality of industrial products in the Soviet Zone of Occupation, which is substantiated by many reliable reports, is therefore not only attributable to the shortage of high-grade materials but is also to a large extent the unavoidable consequence of the system of planned economy according to the Soviet pattern.

3. The situation is quite similar in the matter of planning of assortment, that is, the break-down of the plan/according to types of goods for branches with very different types of production. For example, shoe factories which had to produce a set quota of "shoes" with short supplies of raw materials, attempted so far as possible to manufacture only shoes of small sizes, or even children's shoes. Thus the planned economy has the tendency to standardize requirements in the consumer goods industries.

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4. In conjunction with this there are the difficulties encountered in properly adapting production to requirements. As a great wealth of complaints from the Soviet Zone of Occupation -- even in its local press -- indicate, this important problem has so far not been solved to any appreciable extent, especially in those branches of industry which have very varied production. Urgently needed goods are either not produced at all or else only in inadequate amounts (in many cases the planners simply forgot to include them), while others are produced in quantities which greatly exceed the actual demand.

5. Rigidity of the plans, insufficient attention given to changed circumstances. The German authorities are constantly appalled at the stubbornness with which the Soviet offices insist upon adhering to the "planned figures", even when circumstances have changed (for example, in the case of the agricultural plans for planting and for deliveries of products).

6. Technical difficulties in the executive organization (very time-consuming and burcaucratic channels of authority).

7. Hindrances introduced as the result of the producers' self-interests (for example, deliveries to the black market).

8. The unavoidable result of the planned economy is a system of red tape of tremendous extent: current detailed reports from all plants, excessively comprehensively statistics, "check figures" by which the success of the plan is measured.

9. The maintenance of "plan discipline" is possible only by means of a control set-up of gigantic proportions (control offices of the economic authorities, control offices in the plants through the medium of the trade unions, "people's control committees", Central Control Commission (ZKK) in the DWK).

10. The same causes lead to a system of economic law which is draconic in its strictness. Confiscation of property, long prison terms, even the death penalty as punishment for economic crimes such as black marketing (which are frequently made necessary by the condition of the plants) are something completely new in the history of modern European law.

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11. Particularly great difficulties developed as the result of the substitution of a state Distribution Plan for free trade. The denial of the methods previously used for distributing the products produced led to the storing up of great quantities of goods by the end of 1948, which practically ruined many plants financially, in spite of the fact that requirements remained very inadequately covered.

The Two-Year Plan for 1949/50, announced in the summer of 1948, included for the first time a large-scale investment plan, which is characterized particularly by the one-sided emphasis on the basic materials industries. Another phase of planning which has been steadily increasing in scope is the tendency to further collectivization, especially by means of the following measures:

1. All major investments are made only in the "people-owned" sector of the economy.

2. Private enterprises still existing have not been included in the Plan since 1 July 1949. They are now instructed to conclude contracts as suppliers to the people-owned enterprises or the SAG's, etc., and they receive raw materials only through this channel. They have thus become "economic buffers" and can count on having work only when orders and available materials exceed the capacity of the "people-owned enterprises".

Since there is a great need for statistical information in the execution of the planned economy, the scope of statistics in the Soviet Zone of Occupation has grown considerably, but their quality has not kept pace. It is an open secret known to all persons familiar with the material that the statistical information used at present is to a great extent incorrect. In particular, the published statistics, under the influence of the Occupying Power, leave much to be desired. In contrast to the Western Zones, no figures at all or only very incomplete figures are published on some very important matters, such as movements of population, the actual amounts and values of production, foreign trade, and many others. The percentage figures for plan fulfillment, which, following the Soviet pattern, are generally the ones to be used, are of meager value from all practical experience, and the figures

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published in the press are very frequently wrong or distorted, as the result either of lack of knowledge of the subject or of willful intent to deceive. It is thus uncommonly difficult today to obtain an even moderately reliable picture of the statistical order of magnitude in the economy of the Soviet Zone of Occupation. Here also the Soviet pattern appears, since it is well-known that in the Soviet Union, in contrast to the democratic countries, practically all significant statistical information on population and the economy is kept secret and divulging it is punishable as treason.

4. Compulsion to Work and Methods of Increasing Output

Compulsion to work is an integral part of any planned economy, since the latter cannot function if the manpower is able to choose its own employment according to type, amount, and location. For precisely this reason every planned economy has the tendency to develop into a system of state authority over all aspects of human life. The following points are characteristic of the conditions in the Soviet Zone of Occupation:

1. The obligation to work is very strictly adhered to, especially the drafting of female workers, even married women (to an even greater extent than in the National-Socialist war economy, whose regulations were quite strict). Women are employed even in branches of industry in which it has never been customary to employ them, or in which their employment was even forbidden, such as in mining or in construction enterprises.

2. In the Soviet Zone of Occupation there is not only a general obligation to work, but to a considerable extent persons who were already working in the field for which they were trained have been forced, out of their positions and professions and employed for work in totally different places and in totally different fields (uranium mining!) For example, even self-employed persons (hand trades) have been forced to take positions as employees.

3. Infringements of the regulations making work obligatory are subject to very strict punishments. For example, food ration cards are often suspended.

4. To a considerable extent, forced labor is used to serve the direct interests and requirements of the Occupying Power (See Section I, 11).

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At the same time there exists a system, which is constantly being expanded, of measures for increasing work productivity. Productivity has dropped greatly as the result of a number of circumstances (dismantlings, wearing out of production equipment, raw materials difficultics, poor nutritional standards). In 1948 the production level on an average for all industries was between 50 and 60 percent of the prewar level. It must be increased if the volume of production is to be increased and the profitability of the plants to be restored even in part. To this end a great many measures have been taken since fall of 1947, mainly the following:

1. In September 1947 Order 234 was issued by the SMAD: supplemental midday meals in the plants for one million workers, increased strictness in work discipline (expansion of the "Akkord" wage system (NOTE: a type of incentive wages), heavy punishments for infringements of the work discipline, reduction in the high number of persons on sick leave, and reduction in "loafing on the job").

2. Introduction of the "Akkord" wages on the broadest possible scale (the system of "progressive incentive pay", which at times was strongly propagandized, was shortly restricted to exceptional cases because of its serious financial consequences for the plants.)

3. Organization of the "Activist" or "Hennecke" movement since fall of 1948 with the aim of a general increase in the "working norms". At present (summer 1949) the working norms are being examined and raised everywhere with this end in mind. The TAN (Technische Arbeitsnormen, or "Technical Working Norms") system is replacing the -efa /illegible/ system.

4. The competition system is being propagandized; this involves the introduction of intra-plant or inter-plant work and production competitions.

5. Increased demands on the workers by the institution of special shifts for the most varied reasons and by increasing the working hours when the fulfillment of the production quota is in the balance.

The trade unions, clearly showing their character as organs of the State, have to a very great extent adopted a position in favor of the policy of increased output, which is modeled after the Stakhanov system in the Soviet Union.

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The daily "working norm" means just as heavy a burden on the individual worker as does the "production quota" on the plant. The general increase in the norm which is being aimed at finds little favor among among the majority of the workers so long as the present food supply situation lasts.

5. Land Reform

Land reform, which was started in September 1945, was the first measure taken toward a basic reorganization of the economic system in the Soviet Zone of Occupation. The parallel to the development in the Soviet Union is obvious, since there also the first revolutionary measure of a fundamental nature was the confiscation of the property of the large land owners. Mecklenburg-Vorpommern, most of Brandenburg, and parts of the Province of Sachsen-Anhalt were the parts of the present-day Soviet Zone of Occupation where large estates existed. In Sachsen and Thüringen peasant farms predominated.

The reorganization, which without any doubt was ordered directly by the Occupying Power, was very radical. All properties containing more than 100 hectares of usable area were confiscated without compensation. In addition to the ground, the buildings and stocks were also taken, and even furniture, libraries, and art treasures. The owners whose property was confiscated were not permitted to keep any portion of it. Even persons who were completely unimplicated politically were affected by the expropriations. Some of the former large land-owners were even compelled to leave their native districts or provinces.

Altogether there were about 9,000 agricultural enterprises in the Soviet Zone of Occupation which included more than 100 hectares. Their total area (including forests) amounted to 7.4 million hectares. A total of 7,136 large properties with an area of 2.51 million hectares were confiscated, in addition to 4,241 smaller farms with a total of 120,000 hectares which had belonged to "war criminals and Nazi leaders". Altogether about 3.2 million hectares, including part of the large state-owned estates and properties belonging to incorporated settlement companies, were turned over to the newly created "land fund", more than a third of the area of the Zone used for agricultural purposes and for forestry. About 210,000 new peasant farms were created

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from these properties. In 121,000 cases increments of land were given to the existing small peasant farms and in 200,000 cases increments of 0.7 to one hectare were given to agricultural by-product enterprises.

It was announced that the principal aim of the reform was to enlarge the existing peasant farms of less than five hectares, to create new, independent peasant farms for peasants who did not own any land, for agricultural laborers, and for small tenants, also to give land to new settlers and refugees. However, the execution of the land reform was inconsistent with these aims, inasmuch as a not inconsiderable part of the confiscated land -- about 400,000 hectares -- passed into Land ownership or became the property of the VdgB and of the SED, and is being administered as large-scale enterprises. About 2.1 million hectares passed into private ownership, that is, only about two-thirds of the land available to the "land fund". This land was divided into very small farms (seven to nine hectares as a rule, including wooded sections, if any), which in most parts of the Zone is inadequate for a viable small-peasant economy because of the quality of the soil and the climate. The Bolshevist dislike of large peasant properties ("Kulak farms") is indicated in the selection of this very small size for the farms. Even the new peasants are not supposed to rise above the proletariat in their standard of living. Also, it was apparently intended to make the greatest possible number of people dependent upon the existence of the new political system for their entire existence and therefore inclined to favor it. It may also be that the future ability of these too small farms to continue to exist was taken into account from the beginning, in order to create the basis for a later collectivization of agriculture. In the Soviet Union also the predominance of the small independent peasant farm following the splitting up of the large estates was only an intermediate stage which was followed later by collectivization into kolkhoses.

The precipitate execution of the reform brought with it considerable difficulties for the new peasant farms, which were, and still are, inadequately supplied with equipment, livestock, and buildings. Actually the average hectare yields in the Soviet Zone of Occupation have dropped much more in comparison

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with prewar yields than in the Western Zones, even though this may not be the only reason. A reduction in the food supply for the urban population is bound to develop simply from the fact that the delivery quotas per hectare are considerably less for the new peasants than for old property owners.

It cannot be denied that an agrarian reform was necessary at the end of the war in those parts of the Zone where large estates constituted a considerably greater than average proportion of the total area. The mistakes made consequently and the negative results of the developments since 1945 stem from the one-sided, political, revolutionary attitude of the instigators of the "reform", which actually constitutes an agrarian revolution in which, in more than one instance, the aim of economic expediency was supplanted by the radical achievement of a political class goal.

6. Tendencies toward Collectivization in Agriculture

Certain tendencies toward further collectivization of agriculture can already be recognized in the Soviet Zone of Occupation. The Peasants' Mutual Assistance Union (VdgB) forms the potential organizational starting point for them. This Union, conceived as a cooperative aid organization for agriculture, is striving more and more to impart to the field of agrarain politics a totalitarian character such as the Reich food situation held during the Nazi period. The VdgB is also one of the satellite organizations of the SED and is clearly under the latter's decisive political influence, as is indicated by the persons who occupy the leading positions. The VdgB exercises particularly great influence through the establishment of Machine-Lending Stations (MAS), a clear parallel to the MTS (Machine and Tractor Stations) in the Soviet Union. Particularly the new peasants, who are quite inadequately supplied with machines, are consequently completely dependent upon the VdgB.

A similar development has taken place in the sphere of agricultural cooperatives. In place of the former organization, which assumed many forms with many divergent branches, there now appears the centralist form of the village cooperative, a universal rural cooperative, in which all branches

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of the cooperative movement are combined (to the extent that their activities have not become superfluous as the result of the formation of the VdgB, with its MAS, and the state reporting organizations for agricultural products). The next stage of development will probably be the merger of the village cooperatives with the VdgB, at which point the peasant economy will have reached the verge of becoming a kolkhos system.

So far no direct measures have been taken by the SMA or by the German Economic Administration of the Soviet Zone of Occupation to create kolkhoses. Currently the SMA is still displaying efforts to promote the peasant ownership resulting ffom the land reform. (For example, SMAD Order No. 209 of September 1947, which ordered the building of 37,000 houses for new peasants by the end of 1948.) However, propaganda preparation for more thorough measures seems to be detectable in the propaganda against the more well-to-do peasants, which is becoming steadily more pointed. These well-to-do peasants have already been excluded from leading positions in the peasant organizations.

A new step toward agrarian collectivization in the Soviet Zone of Occupation is the creation of a "Union of People-Owned Farms" (summer 1949), into which all agricultural and forest properties which are publicly owned (even by Laender, districts, localities, etc.) are combined. This is thus a clear parallel to the formation of gigantic people-owned concerns in industry. Current estimates indicate that these new agrarian concerns possess about 1.8 to 1.9 million hectares of ground, or the equivalent of approximately the total agricultural area of Land Sachsen and Land Thüringen together.

7. Socialization, State Ownership and Semi-State Ownership of Industrial Plants

Whereas in the agricultural economy of the Zone the Occupying Power first followed the course of dissolving the large estates and strengthening the private ownership by small peasants, it made the opposite decision in the matter of the industrial economy and started shortly after the beginning of the Occupation to follow the road toward socialization, especially in the case of the large and medium-sized plants. The measures ordered by the Control Council for all of Germany for the elmination of war criminals and Nazi leaders formed

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the basis for this action. Orders No. 124 and 126 issued by the SMAD indicated various categories of property which were to be requisitioned immediately in accordance with this basic principle and placed under trust administration. The confiscated plants were separated into three types:

List A -- Plants which were intended for conversion into Land or Provincial property.

List B -- Plants which would be returned to their owners after investigation of the political circumstances (almost solely small enterprises).

List C -- Plants which would continue to be requisitioned by the Occupying Power (mainly large industrial plants).

In summer and fall of 1946, 200 of the plants in List C were declared Soviet property (see Section I,4). On 30 June 1946 a "people's decision concerning the confiscation of property of war criminals and Nazi leaders" was applied to the plants in List A in Land Sachsen, while in other parts of the Zone the confiscation of property of politically implicated owners proceeded through process of law or by decree.

Although from their outer appearance these measures appeared to be a political purge, actually a large-scale socialization project was under way. For in contrast to the practice in the Western Zones the concept of political implication was given extraordinarily broad interpretation, and correspondingly the group of plants to be confiscated was a very large one. In general it was good and sufficient grounds for confiscation of property if a plant had executed war orders or had employed foreign workers. A number of cases are publicly known in which plants were taken even from owners who had been able to give proof of anti-Fascist activity. It has also been proved that in numerous cases grounds for confiscation of property were deliberately trumped up. It is impossible to speak of a "process of law" in the treatment of the complaints of the persons whose property was confiscated. The confiscation operation in the Soviet Zone of Occupation used the elimination of politically implicated persons only as an excuse. The actual intent was to transfer almost all larger industries from private to public ownership.

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The confiscated plants were disposed of as follows:

1. All the larger and more important industrial plants became the property of the Laender and Provinces and formed the basis of the combines of "Land-owned plants" which were formed with state-owned capital (later, because of the propaganda effect, they were designated "people-owned plants").

2. Another group became the property of other public bodies, particularly cities, towns, and counties.

3. A small group were turned over to para-state organizations, especially the trade unions and the consumer cooperatives.

4. A number of unimportant small enterprises (mainly retail and hand trades enterprises) were sold to private persons.

Since summer 1946 the process of confiscation has made progress in the following manner:

a. Additional plants owned by "politically implicated" persons have been commandeered or confiscated, as have plants whose owners have been sentenced for "economic crimes".

b. Confiscation by law: all minerals and mining enterprises in all Laender of the Zone and also the moving picture theaters in Mecklenburg.

SMAD Order No. 64 of April 1948 ordered the cessation of requisitioning. At the same time the lists prepared by the German Economic Commission of plants to be confiscated were approved. This meant in effect that the major part of the C plants which had up to that time been under trust administration became "people's property". The SMA Order stated that eight percent of all industrial plants which are required to submit reports (NOTE: the largest plants) and about 40 percent of all industrial production in the Zone would thus become the property of the German people.

Since then the proportion of "people-owned" industrial complexes in the Soviet Zone of Occupation has continued to increase, as a result of the following:

1. Further "socialization" by indirect methods, primarily as the result of punishment for economic offenses.

2. Preferential consideration given to people-owned plants within the framework of economic planning, especially in the matter of allotments of raw and auxiliary materials, allocation of orders, granting of credits,

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covering of losses, etc.

3. Almost complete restriction of new investments to the "people-owned" plants.

Considerably more significant are the changes in respect to organization. The majority of the confiscated plants were first transferred to Land ownership and declared "Land-owned plants". In May 1948 there were estimated to be over 3,000 Land-owned plants with nearly 600,000 employees.

This tremendous amount of industrial property meant that the Laender enjoyed a position of economic power of the first order. In the struggle between the theories of regionalism and centralism as represented by the German Economic Commission, the latter scored a decisive success when the German Economic Commission succeeded, in May 1948, in transferring, with the approval of the SMA, the majority of the formerly "Land-owned" enterprises to direct zonal administration, that is, to direct administration by the German Economic Commission. The large and important plants were particularly affected, whereas only plants of local or district importance remained under the administration of the Laender.

The decree of 24 November 1948, according to which all plants owned by towns and districts had to be combined into a "communal economic enterprise" (KWU), which meant "people's property", signified another gain in the DWK's position of economic power. This meant in effect that the influence of the DWK was considerably strengthened in the case of this type of plant also.

The "people-owned" plants which have come under Zonal administration have been combined according to the branch of industry to which they belong into about 80 "Federations of People-Owned Plants" (VVB - Z), and placed under the direction of the Main Administration of the DWK which is responsible for that field. The plants which are still under the administration of the Laender are also organized in a similar manner into Federations of people-owned plants on a Land basis (to a considerably lesser extent, however). With the formation of these units, people-owned concerns and trusts have sprung up on a scale completely unknown previously in Central German industry. The total number of employees in the people-owned plants was

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given as 730,000 at the end of 1948 by Fritz Selbmann, deputy chairman of the DWK. Since then it must have increased to about 750,000, divided between Zonally administered people-owned plants and Land-administered people-owned plants in the ratio of about 550,000 to 180,000 or 200,000, respectively.

The following figures for Land-administered people-owned plants have been obtained:

Land Sachsen	726 plants with 62,000 employees
Land Sachsen-Anhalt	382 plants with 43,000 employees
Land Mecklenburg	331 plants with 32,000 employees.

The number of employees in the para-state plants is not included in the above figures. The following examples give an idea of the considerable significance of these plants: At the end of 1948 the consumer cooperatives in the Soviet Zone of Occupation had 624 producing enterprises of their own (some of them, to be sure, of the hand trades type) with 42,767 employees, and in April 1949 12,000 persons were employed in the communal enterprises in the city of Leipzig. The number of employees in this group of plants may be conservatively estimated at 120,000 altogether.

The following compilation may be made:

Zonally administered people-owned plants	550,000 employees
Land-administered people-owned plants	200,000 employees
Para-state plants	120,000 employees
SAG's (not including uranium mining)	300,000 employees
Total	1,170,000 employees.

Thus about 1.2 million persons are employees in the socialized or sovietized segment of industry in the Soviet Zone of Occupation, or about 65 percent of all persons employed in industry. Measured by value of production, the share produced by the socialized segment is still greater, since on the average the plants included in this category have considerably greater concentrations of capital than the plants which have remained in private ownership. Selbmann stated that during the first three quarters of 1948 the people-owned plants' share in total production increased from 40 to 55 percent. Clearly these

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figures apply only to the German plants (not including the SAG's). Furthermore it is safe to assume that a further shift in the ratio has taken place since then in favor of the people-owned plants. The relationships must have been approximately as follows in the summer of 1949:

Share in Total Value of Production	
People-owned plants	42 percent
Para-state plants	8 percent
Soviet Corporations	25 percent
Private enterprises	25 percent.

The proportional share of the socialized segment of industry is very different for the different branches of production. The total production planned for 1949 is distributed approximately as follows among some of the various important branches of industry:

Branch of Industry	Percentage to be Produced by: SAG's	People-owned plants (Zone)	People-owned plants (Land)	Privately owned plants
Mining	33	65	2	0
Metallurgy	32	52	10	6
Chemical industry	60	18	2	20
Building materials industry	14	27	21	38
Wood industry	-	15		85
Textile industry	3	55	8	34
Leather, shoes and hides industry	-	33	13	54
Cellulose and paper industry	9	34	19	38
Food and beverage industry	-	38		62
Production of electric power	38	39	22	1

Thus the "socialized" segment of industry is of the most significance in the branches of industry manufacturing basic materials and means of production, whereas privately owned enterprises have retained a comparatively high proportional share in various consumer goods industries. However, as has already been mentioned, the reduction in private ownership is steadily proceeding in these branches of industry also, "by cold methods". (NOTE - i.e. indirect

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Selbmann gave the figure for capital invested in the people-owned plants as about seven billion marks on 1 July 1948, 5.4 billion of which capital stock and reserve. A large proportion of the people-owned plants are working with considerable deficits, and the tremendous sums paid out for subsidies -- currently over 700 million marks per year -- benefit these plants primarily (aside from the SAG's). This unfavorable situation is not in the least measure the result of the fact that in the filling of the leading positions in the federations and in the people-owned plants themselves the party-politics point of view plays a decisive role. The percentage representation of the SED in these leading positions is extraordinarily high.

We may summarize as follows: Although within the field of industry only mining and minerals have been socialized by law, wide-spread collectivization has nevertheless taken place in the industry of the Soviet Zone of Occupation. In particular, private enterprise has almost completely disappeared in the industries which produce basic materials and means of production. Measured in terms of production value, only a quarter of all industry today falls to the remaining private enterprises, and the significance of these enterprises is steadily being diminished by continuing measures of "cold socialization". The regulations, already mentioned, concerning the removal of private enterprises from the economic plan also work toward the same end.

8. Collectivization of the Hand Trades through the Formation of Cooperatives

The sphere of the hand trades has so far not been affected by direct socialization measures. In this case also an indirect collectivization is taking place -- again in direct parallel to the economic forms in the Soviet Union -- through the promotion of the formation of cooperatives, program receives great support from the State. The individual hand trades worker is under heavy pressure to join the cooperative, since production orders, and consequently raw materials allotments, are given only to the cooperatives. Only plants with less than ten employees are still recognized as hand trades enterprises.

In themselves, hand trades cooperatives are also an organizational form

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common in a liberal economy. The innovation is that at present in the Soviet Zone of Occupation an attempt is being made to force the formation of production cooperatives in which not only the marketing of products and the procurement of raw materials and credit are collectivized, but also the production of the individual workers, something which had previously never been known in Germany. A side aim is the political influence over the hand trades, since the leading posts in the cooperatives are filled with reliable SED people. It is quite possible that in this way a further realization of collectivist tendencies will occur in the future in the sphere of the hand trades economy, for in contrast to the former types of cooperatives the production cooperatives are definitely an element of the collective economy.

9. Throttling of Private Trade

The tendency toward collectivization did not stop short of the sphere of private trade. The attempts to transfer trade functions to state or semi-state institutions have increased considerably during 1948 and 1949. At present it is primarily the wholesale trade whose elimination is being aimed at through the economic policy of the Soviet Zone of Occupation.

As in many other phases of the Soviet Zone economic policy, a development from regional decentralization toward Zonal centralization can also be observed in the wholesale trade policy. The attempts to eliminate wholesale trade started with the setting up of state trade centers, the so-called "trade offices", at Land level. In the beginning, private wholesale trade still played although a minor one, in these institutes, and the latter availed themselves of the cooperation, even though the number of "reliable wholesale traders" to be drawn in for the purpose became limited. The first institutes of this sort were created in Land Sachsen in 1946 and were known as the "Sachsen Industrial Office" (SIK), handling trade in raw materials and industrial requirements, and the "Sachsen Central Trade Company", which handled finished products. The substitution of State "Coal Offices" for private coal dealers during this period had a particular effect.

In spring 1948 the DWK took a step toward centralization by founding

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the "German Trade Company of Berlin, Ltd." (DHG), to which all movements of goods were turned over. The DHG expanded, with numerous special offices, special sections, and special divisions, local branches, etc., into a mammoth undertaking with about 10,000 employees altogether. Its bureaucratic clumsiness soon formed an extraordinarily great impediment in the turnover of goods. Therefore in the spring of 1949 a start was made toward breaking up the mammoth structure into a great number of State trade centers organized somewhat on the order of branch offices. In the field of foreign trade, 11 foreign trade companies are to be set up, for various types of goods, and in the field of domestic trade 20 State trade centers, also organized along the lines of branch offices, are to be set up. Two "Federations of People-Owned Procurement and Purchasing Enterprises " (VEAB) were set up by an order from the DWK of 30 March 1949 to handle agricultural trade, one for animal products, the other for vegetable products.

All these State trade centers and companies have in common the fact that now, in the beginning, they are to some extent still utilizing the private wholesale trade which still exists. However, it is perfectly clear that the final goal is the total elimination of private trade. "Socialization measures" are absolutely unnecessary in this case. Private trade will simply be deprived in this manner of all opportunities for activity. Private wholesale trade can probably hold out longest in the field of foreign trade, especially in export business. However, in this field it also has to struggle against the competition of the Soviet trade companies, which were discussed earlier in this report.

Private retail trade has so far not been exposed to such a concentrated attack. However, its opportunities for activity are being steadily more and more restricted. Three methods in particular are significant in this connection:

1. Preference is given to the consumer cooperatives which have been strongly promoted by the SMA and the Land governments over private retail dealers.

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At the end of 1948 the consumer cooperatives in the Soviet Zone of Occupation had over 114,800 sales offices at their disposal and handled 16 percent of all domestic trade turnover and 30 percent of the food supplies in the Zone.

2. Participation of the FDBG in the distribution of foodstuffs and industrial finished products to employees in factories.

3. Competition from the State "Trade Organization" (HO), created in the fall of 1948, in the marketing of non-rationed goods. The expansion of the network of HO sales offices, which proceeded at a feverish speed, leads to the conclusion that the HO is designated, together with the consumer cooperatives, to take over eventually the entire retail trade of the Zone.

Thus in retail trade there is also no "socialization", but the private retail trade turnover is so greatly reduced as the result of the one-sided promotion of State trade institutions that it will eventually die out.

10. Reorganization of Banking, Credit, and Insurance

In the Soviet Union, Bolshevism regarded banking and credits as one of the "high commands" of the economy, the collectivization of which was accomplished very shortly after the Bolshevist revolution. It is therefore no coincidence that one of the first measures taken by the SMAD after the beginning of the Occupation was the almost complete elimination of private banking. The former banks were all closed and not reopened. All accounts with them were completely blocked, which action simultaneously had the desired additional social effect of partially destroying the private ownership of capital. In place of the former many-sided private banking system, a uniform State banking system has now appeared throughout the Zone. The central bank of the Zone is the "German Bank of Issue", established in 1948, with its main office in Berlin. The "Issue and Giro Banks" in the five Laender are affiliated with it. Its functions correspond approximately to those of the former Reichsbank, that is, the issuance of banknotes and the regulation of currency circulation and payments. For the uniform credit business there exists in each land of the Zone only one State-controlled Land Credit Bank, with an extensive network of affiliates. The Land Credit Banks took over the installations of

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the former private banks, but did not inherit their privileges. It is characteristic of the economic concepts of the Occupying Power that the new Land Credit Banks were permitted to take over the former banks' accounts receivable but did not take over their obligations.

In addition to the Land Credit Banks only the following have been permitted to operate:

a. The savings banks

b. The credit cooperatives

c. A small number, which is growing steadily smaller, of private bankers with no economic influence.

In addition the above-mentioned (see Section I, 4) "Guaranty and Credit Bank", which is Russian-owned, is of increasing importance as the credit representative of the Soviet portion of the economy of the Zone.

The importance of this development results from the following:

a. Complete elimination of private enterprise and methods of a competitive economy in a very important sector of the total economy

b. The almost complete monopoly of the State banks over all granting of credits. The State banks thus acquire a dominant influence over the private enterprises which still exist.

A radical collectivization was carried out very shortly after the beginning of the Occupation in the field of insurance also. The activity of private insurance companies was completely forbidden in the important branches of insurance. Today almost all insurance is concentrated in the Land Insurance Institutes, which are state-owned, in the various Laender. The private companies which are still permitted for individual branches play a decidedly subordinate role. Thus another field, and one which from the point of view of capital is of great importance, has been completely withdrawn from the private economy.

11. The Suppression of the Rights of Enterprises

Even within the very modest sector still remaining to private enterprise the freedom of private businessmen to make decisions concerning management of their enterprises has been strictly curtailed. This is an unavoidable result of

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planned economy, because with the authoritarian, centralist regulation of production and distribution today practically the only problems remaining for the businessman to handle are those pertaining to technical matters and organization, while the actual economic functions of the owner have been almost completely eliminated. The new regulation, already mentioned, whereby private businesses receive no direct production orders as of 1 July 1949 but must conclude contracts as suppliers to people-owned plants, etc., does alter the picture to some extent, but it by no means signifies, as the SED economist-politicians contend, a greater scope for private initiative. In actuality the status of private enterprise thereby becomes more circumscribed than before, since it becomes completely dependent upon the "people-owned" or Sovietized sector of the economy.

Within the plants the plant trade union managements (which are replacing the works councils) have been accorded a considerable privilege of codetermination, even in economic matters. The complete prohibition against organizations of businessmen is also of great significance. It affects not only the cartels, in the sence of the Potsdam Agreements, but also the economic unions of businessmen which are usual in all democratic countries. The position of the chambers of industry and commerce has already been discussed.

Thus even in cases where private enterprise in the Soviet Zone of Occupation has not been deprived of its property rights, it nevertheless faces an oppressive massing of forces by the State and the para-state organizations. In addition, the process of "cold socialization" is progressing steadily, by placing private enterprise at an economic disadvantage, by causing unprofitability and financial stress to develop, and also by further confiscation and expropriation of properties on the basis of alleged "economic crimes". More and more private enterprises are finding themselves economically and financially incapable of continuing existence. Cases are multiplying in which private businessmen turn their plants over "into the hands of the people" because they can no longer retain them and they hope in this way to be able at least to remain in the plant as administrators or as hired plant managers.

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12. Restrictions on Civic Freedoms in Economic Life

The restrictions on civic freedoms in economic life, which have developed to an advanced stage, should also be included in the total picture of this antidemocratic system. These restrictions have already been mentioned frequently in the foregoing sections, but the following should be emphasized in particular:

a. Restriction on property rights: arbitrary expropriations on the basis of political charges, expropriation by process of law without compensation (large estates, and to some extent mineral resources), complete blocking of bank accounts, restrictions on or prohibition of the rights of owners to make decisions concerning the conduct of their businesses or the disposition of their property.

b. Abrogation of the right to unite: prohibition against all organizations among businessmen, exclusive rights for totalitarian unity organizations such as the FDBG and the VdgB.

c. Compulsion to work applied on the broadest conceivable scale, especially for work in the service of the Occupying Power.

d. Police regulation of all economic processes to an extent completely unknown in democratic countries. At present this is based particularly on the fight being waged on the black market. Many examples indicate that even the present totalitarian system in the Soviet Union, like every system of this sort, is able to maintain its position only by using the strictest kind of police-state compulsion, which gradually eliminates all human and civic rights.

13. Summary

The economic system of the Soviet Zone of Occupation has, to be sure, not completely Bolshevized, since currently private property and private enterprise are still retained in some measure. However, they are already being completely strangled by the important posts, the "high commands" of the economy, just as in the political system of the Soviet Zone the democratic forms and institutions which are still permitted are nothing more than

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camouflage for the totalitarian, one-party system which actually dominates the scene. The economic system of the Soviet Zone of Occupation already resembles that of the Soviet Union much more closely than it does that of the USA or even the moderate socialism in England. There can be no doubt that the process of Bolshevization is proceeding constantly. Four years of Occupation have sufficed to bring about revolutionary reorganizations in the economic forms in the Soviet Zone of Occupation. The elimination of the remnants of private economy which still remain and the conclusion of the Bolshevization in an important section of Central Europe will require considerably less time.

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III. Reorganization of the Social Structure

The previous sections have already indicated that the aims of the economic reorganization in the Soviet Zone of Occupation are less economic than political and social in nature. To be sure, the real aims are generally camouflaged from the public. For example, it is always contended that the aim of the agrarian reform is primarily the increase of agricultural production. In actuality, however, the primary aim of this reform is political, namely, the elimination of a certain social class which appears dangerous for the goals of Bolshevism. Thus in the case of many measures taken in the Zone the real aims are quite different from those which are given publicly and in propaganda. It is therefore especially important to examine the connection between the economic and social reformation and the fundamental changes which have occurred in the Zone which are of a social significance.

1. Denazification as a Means of Class Warfare

There are gross differences between the concepts of the Western Powers and of the Soviet Union concerning the matter of eliminating Nazi elements from the economy and from public life, just as there are concerning the concept of "democracy". The Western Powers' aim in the denazification action in the Western Zones was the elimination of politically implicated persons regardless of their social position, not the elimination of a certain class or certain entire economic and social groups. However, this is precisely the aim pursued in practice by the Soviet Union and by the SED, although to be sure it is not acknowledged in public. Under the pretense of eliminating politically implicated persons measures are executed which are basically significant for the expropriation of property and the economic weakening of certain social groups (see Section II, 7). It is quite true that some of the members of these groups, such as the large estate owners and the large industrialists, were politically implicated or closely connected with the Nazi system, but it is a clear blow against historical truth to regard all members of these groups as unequivocally politically implicated. The Soviet Union's aim was clearly to weaken and to eliminate the entire former non-communist economic and social upper class in Germany under the cover of denazification -- that is,

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to achieve leagally, by means of denazification, the same end which was attained in the Soviet Union in 1917 - 18 by the revolutionary action of the Communist Party. Connection with the Nazi political system was used as an argument primarily against the following classes in the Soviet Zone of Occupation:

a. The owners of large estates, who are always referred to in the SED propaganda as "Junkers", although by no means all the owners of large estates in the Zone belonged to the feudal aristocracy. For example, in the Province of Sachsen-Anhalt a large proportion of the large agricultural enterprises, which were particularly well run in this area, were in the hands of middle-class elements who had come into the possession of large agricultural holdings as the result of outstanding agricultural performance. The indiscriminate expropriation of all large estates without compensation was based primarily on the damaging political role played by this class and on its connection with the Nazis. For a not inconsiderable number of the large estate owners this was quite untrue; it need only be pointed out that the conspiracy of 20 July 1944 against Hitler was was to a considerable extent engineered by members of former noble families.

b. The large and medium-sized industrialists and other persons playing a leading role in the economy, especially the bankers. The SED propaganda is constantly working the theme that all large industry is synonymous with war industry and monopolistic capitalism, all large industrialists are warmongers or were at least opportunists benefiting from the Nazi system. This is a primitive historical lie for a definite purpose. In addition, there were numerous individual cases where political implication was simply fabricated (see Section II, 7). It should also be pointed out that "monopolist capitalism" was much less significant in the industry of the Soviet Zone of Occupation than in the Ruhr area. Since particularly in the Sachsen and Thüringen industrial region modified finished-products industries were in the majority, cartels, concerns, and other monopolistic organizational forms played only a comparatively minor role. It is therefore completely incorrect, particularly for the Soviet Zone of Occupation, to simply equate private enterprise with "monopolist capitalism".

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c. The civil servants. In the Soviet Zone of Occupation the denazification of civil servants was in general executed in very radical fashion, and in this connection it was again clear that it was not denazification which was aimed at but the elimination and replacement of a certain social class. For example, all police officers who held positions after 1933 were regarded on principle as politically implicated and dismissed, even though they had not belonged to the Nazi Party. In a number of cases, however, politically implicated officials who were regarded as indispensable because of their experience were retained, provided they were willing to submit to totalitarian pressure for a second time and to join the SED. The Occupying Power itself, in those cases where it required certain persons for its own purposes (for example, scientists, technicians, etc.) was very generous about overlooking their political histories. These elements who accepted in spite of their political pasts are partucularly useful to both the SED and the Occupying Power because they are completely dependent upon the present system and will not dare to express any opinions of their own.

It can thus be said in summary that the Occupying Power and the SED have succeeded in executing a social reformation on a large scale under the cloak of denazification and in eliminating to a great extent the former economic and social upper classes.

2. Elimination of the Large Estate Owner Class

The large estate owners were the class which was most radically eliminated in the Soviet Zone of Occupation. To be sure they were few in number, but in some parts of the Zone they possessed great economic and political influence (most typically in Mecklenburg-Vorpommern). It appears, however, that this influence was overestimated by the Russians, since on the basis of their own experiences in the Tsarist period they regarded the feudal aristocracy as the most dangerous focal point of "reaction", although in the Soviet Zone of Occupation this applied only conditionally (the majority of the German feudal estates were in the areas east of the Oder-Neisse line). Property of the large land owners was unconditionally confiscated (see Section II, 5), and they were even driven out of the places where they had previously

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lived in order to eliminate any potential personal influence on the local populace. This class therefore no longer exists in the Soviet Zone of Occupation. A large number of its members are in one of the worst of the new concentration camps, Jamlitz, physically ruined as well.

3. Social Regrouping of the Peasantry

The predominating group among the German peasants, even in the Soviet Zone of Occupation, were formerly the owners of the medium-sized and large peasant farms, who were predominantly conservative and anti-socialist. It was therefore undoubtedly due primarily to political considerations that in the Soviet Zone of Occupation the smallest size farms were decided on in connection with the land reform. This selection achieved the following results:

a. In this way the greatest possible number of "new peasants" were created, owing their economic independence to the new regime and therefore expected to be politically "reliable".

b. New peasants with five hectares of land are restricted, under conditions prevailing in the Soviet Zone of Occupation, to an existence which is economically scarcely any higher than that of the proletariat, and so the SED expects a similar political attitude of them.

Many of the new peasants are "resettlers", that is, persons who were driven out of the East German areas placed under Polish administration or the ethnic German areas in Southeastern Europe. It is well known that this expulsion of many millions of Germans from East Germany and from the Eastern European and Southeastern European countries, that is, from the countries in the Soviet sphere of influence, was tolerated and even promoted by the Soviet Union. The total number of Germans "resettled" in Germany west of the Oder-Neisse line is estimated at 12 - 13 million, over four million of whom are in the Soviet Zone of Occupation. It appears not unlikely that the Soviet Union intentionally promoted these mass migrations in order to create a social witches' caldron in over-populated Germany by the influx of an uncommonly great number of refugees, in the expectation that favorable conditions would develop for social-revolutionary tendencies in the Bolshevist sense.

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Apparently these possible results were not taken into account by the Western Powers when they permitted the forced migrations, unique in history, from the German areas under Polish administration and from the Eastern and South-eastern countries of Europe.

A new phase in the social regrouping of the peasant population appears to be in process of preparation, with the increasing propaganda against the well-to-do peasants during 1948 and 1949. "Class struggle in the village" is the theme and the demand frequently found in the SED press. The Soviet prototype -- war on the "kulaks" -- is unmistakable. As in so many other cases, Soviet example is also being followed here, under the very different circumstances which exist in Germany, where social distinctions amounting to a real class struggle have never previously been known among the peasant population. In any event the well-to-do peasants (who are not very strong so far as numbers are concerned) form at present one of the most threatened social groups in the Soviet Zone of Occupation. Their elimination would be another step on the road to the kolkhos system. There can scarcely be any doubt that in spite of all denials this is the actual aim of the agrarian policy, even on the part of the German Communists.

4. Weakening and Throttling of Small Industrial Enterprises

As was explained in Section II, 7, the greater part of the industry in the Soviet Zone of Occupation has already been taken out of private hands. This is not true from the standpoint of the total number of plants, since a portion of the medium-sized and most small industrial plants are still privately owned. The losses sustained by the class of small industrial proprietors are thus not so great so far as numbers are concerned as one might perhaps expect from the extent of socialization effected so far. But qualitatively the effects of this process are very considerable, also the social aspects, for it was primarily the owners of the large and medium-sized plants who were dispossessed, that is, the class which is referred to in the SED propaganda as "cartel lords" and "monopolist capitalists", and the owners or managers of the confiscated plants were with few exceptions completely eliminated from economic life.

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Furthermore, mainly persons from the "proletariat", or at any rate persons who are reliable from the SED point of view, have worked their way into the leading positions in the socialized plants. For example, the Sachsen economic minister Selbmann gave the following data in 1947 concerning the social origin of the managing personnel of the Land-owned plants in Sachsen:

Social Origin	Directors of the Industrial Administrations (in percent)	Managing Directors
Former directors	5.2	4.2
Former merchants	31.7	21.7
Former engineers	23.9	13.5
Former office employees	11.9	13.0
Former laborers	27.3	47.6.

But even the private enterprise which still exists is effectively weakened by State interference and Party control, by labor union and works council supervision, and can therefore can by no means be regarded as a "leading class". Moreover it is steadily shrinking in numbers as the result of the progress of the "cold socialization". In particular the measures described in the preceding section for the elimination of wholesale and retail trade also mean a quantitative weakening of the class of independent businessmen which far exceeds its losses resulting from the socialization of industry. It is also characteristic that small independent businessmen from the hand trades and retail trade are affected to no small extent by the compulsory conscription for uranium mining.

5. Elimination of the Career Civil Servants

National Socialism took over the former body of civil servants more or less intact, even though generally on condition that they join the Party. As mentioned above (see Section III, 1), this gave the Communists in the Soviet Zone of Occupation an apparently plausible excuse for replacing the former civil servants with politically "reliable" elements with the most varied professional and social backgrounds, whose qualifications for the jobs were frequently very meager. The cases of corruption among the present body

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of civil servants in the Zone, which have come to light in great numbers, are generally closely connected with this new set-up of unilateral party-political orientation of the personnel. The principle, which had formerly been common in Germany, of life-long appointments for civil servants, guarantee against dismissals, and pension rights, was suspended with regard to the new public employees. This produced the following results:

a. Elimination of the former differentiation in working conditions between the civil servants and persons privately employed, that is, a social collectivization. This conforms with the general tendency of Bolshevism toward proletarianizing, which is a necessary prerequisite for collectivization.

b. Insecurity of the existence of public employees, who could be dismissed at any time and who therefore became increasingly dependent upon the state and no longer dared to act independently and conscientiously toward the new "ruling class", even though they were opposed to the Communist system.

6. Reorganization of the Academic Class

The former academic class in official positions and in the free professions also appeared to the Communists to be an obstacle to the realization of their political and social aims. They attempted and to some extent are still attempting to either eliminate this class or to oppress them socially or, preferably, to convert them to do their bidding. The elimination of this class was handled partly by eliminating the "politically implicated" and partly by cutting down the number of career officials ("new teachers" with a short training period!). Particularly characteristic of this tendency is the constant replacement of academically trained lawyers by "people's judges" trained in short preparatory courses. Social oppression is very evident in the case of physicians. Since today almost every person in the Soviet Zone of Occupation is required to have social insurance, the grounds for the existence of freely practicing physicians are becoming steadily more limited, and the physicians are becoming more and more simply employees of the social insurance system. The orders to increase work productivity (for example, SMA Order No. 234) have also subjected them to rigid restrictions on their activities.

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The reconstitution of the academic class is also being attempted, by strictly limiting the number of students so that to as great an extent as possible only sons of proletarians are admitted to the institutes of higher learning. It is no exaggeration to state that the class struggle predominates in reverse in the choice of students today. Considerable material advantages are granted to politically desirable students, particularly in the new social science faculties (see section II, 1). It is expected that in the future a "politically reliable" academic class will thereby develop.

The efforts to create such a "people's democratic" academic body are being particularly stressed at present also because the shortage of highly qualified specialized personnel in most fields, particularly in industry (engineers, chemists) has become more and more acute and is producing more and more unfavorable results in the economic performance of the Soviet Zone of Occupation. The heavy pressure from the Occupying Power, the SED and its factory groups, the plant trade union managements, etc., to which all managing personnel in the economy are exposed, the restrictions on personal and spiritual freedom, the frequent impossibility for children of "bourgeois" intellectuals to obtain permits to study at institutes of higher learning, have caused a great many of the members of this class to emigrate to Western Germany. Since the beginning of 1949, therefore, the "bond between the intellectuals and the workers" has become one of the major slogans of the SED, and the intellectuals, provided they are acceptable to the ruling regime (this does not include lawyers and the clergy) have become a privileged class as the result of a number of measures improving their material situation. However, experience so far indicates that the success of this policy has not come up to the expectations of its protagonists, since political, spiritual, and personal pressure continues and has not ceased to affect the members of the intellectual class with particular severity.

7. Proletarianization of Persons Living on Independent Means and Pensions

The proletarianization of this class, which was of no small consequence in the social structure of the old Germany, was accomplished by the following

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measures:

a. Cancellation of the pension claims of former civil servants (although rightfully the pension claims should be regarded as part of their salaries, which were accordingly set at rather low figures)

b. Blocking of old bank accounts

c. Considerable reduction in income from capital as the result of socialization measures, for example, the ownership of stocks, since when corporations were expropriated even politically unimplicated stockholders received no compensation.

Consequently the position of persons living on independent incomes and pensions has to a great extent been brought down to the material level of the proletariat.

8. The Position of the Working Class

In the Soviet Zone of Occupation the Communist system also makes the claim that the reconstruction of the economic and social order is being done for the workers and by the workers. The newspapers and public addresses in the Zone are full of propaganda along this line. However, this by no means corresponds to the inner feelings of the workers, who -- at least to a considerable extent -- are just as much opposed to the new system as are the other social groups among the population. The reason for this is the fact that the reorganization which has allegedly been carried out in the interests of the "workers" has had very limited positive effects for them, whereas on the other hand the burdens and the demands on the workers are very great. In all justice it must be conceded that these burdens are to a great extent the result of the exploitation by the Occupying Power. However, since the ruling class of the Communist regime is very closely bound up with the Soviet system of exploitation, it is psychologically easy for the worker to identify one with the other and to blame the governing Communists for all the pressure placed on the people.

The class status of the workers has improved in the following respects:

1. The social distinctions in contrast with the "upper classes" of the past have been greatly diminished, especially since these "upper classes" have

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to some extent completely disappeared. An extensive social leveling has taken place. To be sure the psychological effects of this change are somewhat minimized by the fact that the difference between the material status of the "new upper class" and that of the workers is scarcely any less than it was in the past. The psychological effects of this circumstance are very great because of the very much depressed absolute level of the workers' standard of living in comparison with the past. This is not compensated for by the fact that within the scope of the very poor absolute supply situation the workers enjoy a pronounced favoritism in comparison with all other classes of the population, with the exception of the "new upper class", with respect to food, distribution of clothing and shoes, vacation trips, etc.

2. "Exploitation by private capital" can be spoken of only in exceptional cases in the Soviet Zone of Occupation, because even in the remaining private enterprises the proprietor is under much too strict supervision. The SED propaganda attempts to utilize this fact to the utmost by constantly holding up to the workers the fact that they have now become "co-owners" of the (people-owned) plants.

3. The possibility for the workers themselves and for the children of workers and small peasants to advance has become greater than formerly (study programs for workers, "people's judges", leading positions in the state administration and in people-owned plants, etc.). Insofar as this represents a real "advance of the industrious", all measures in this connection deserve the greatest attention from the Western world, which in view of the social experiments in the East must take greater care than formerly to make such advance possible. However, it must unfortunately be admitted that the measures in the Soviet Zone of Occupation can be considered as model only to a very limited degree, because here the advance above the masses is dependent not only upon true ability and performance but also to just as great a degree upon the candidate's proper political attitude and "adherence to the Party line".

It does not appear that for the majority of the working class this improvement in the class status, which is only relative, would give rise to

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any extensive approval of the Communist regime. This is due primarily to the fact that the absolute status of the worker in comparison with the past has by no means improved but in some significant respects has become considerably worse. In addition to the general pressure placed upon the population politically and psychologically, the following points in particular play an important part:

1. To be sure, the working class is in the best position within the framework of the official supply situation, but in absolute terms it is still, even today, completely inadequately supplied. This is true with respect to food as well as with respect to clothing and industrial consumer goods. The very frequent complaints about the poor provision of work clothing, protective clothing, work shoes, etc. show that the planned economy has so far fallen down, one place where it would be least expected.

2. In spite of the poor supply situation very great demands are made on manpower and on the workers' performance (see Section II, 4). The work protection regulations (for example, with respect to the length of working hours) are frequently exceeded without any legal authority. Overtime work, special shifts, night work, Sunday and holiday work are very common phenomena.

3. The worker today finds himself exposed to exploitation by the State, which in many respects is much worse that the exploitation by private capital of the past (profiteering prices in the "Free Shops", compulsory signing up for a "reconstruction loan", "voluntary" donations for striking French miners or for "democratic Greece", etc.).

4. The extent of real codetermination in the factories, even in the "people-owned" plants, is very meager so far as the mass of the working class is concerned. By and large only the members of the functionary class can exercise any "codetermination". The workers no longer have any real representation, since the trade unions, with their present structure and type of activity, can no longer serve as representative organs of the working class but have become merely executive organs of the State economic administration or of the Occupying Power.

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5. Since summer of 1948 a fairly large amount of unemployment has developed for the first time in the Soviet Zone of Occupation. In July 1949 it was no less, in proportion to the population, than that the unemployment in Western Germany which was constantly being emphasized by the Communist press. The situation of the unemployed is very unfavorable. The worker therefore does not even have the feeling that a system which demands so many sacrifices from him is even able to offer him the assurance of full employment in exchange.

For all these reasons the masses of the working class can scarcely be convinced that their status has actually improved. There are many things to indicate that a great many of the workers do not consider the so-called "co-ownership" as an actual social advance, but would prefer a socially controlled private enterprise.

9. The New Upper Class

The social aim proclaimed by the Bolshevists is the creation of a "classless society". As we have already seen, this goal has been partially achieved, in a negative fashion, in the Soviet Zone of Occupation, in that a considerable number of the members of the former social upper classes have been dispossessed or deprived of their influence. However, class distinctions as such have by no means been eliminated by this action. On the contrary, it can be stated definitely that, just as in the Soviet Union itself, social distinctions of a different sort have developed, primarily, under present circumstances, as the result of the differentiated supply status of the different groups. For example, if some of the workers receive their supplemental midday meal (SMAD Order No. 234) according to the qualitatively superior "Norm A", while others -- the majority -- are fed according to the considerably inferior "Norm B", and still others receive no supplemental meal at all, this necessarily creates new class distinctions in a period when the struggle against hunger is still the most significant aspect of life for most of the inhabitants of the Zone. The same is true when independent businessmen with more than five employees receive neither a clothing ration card nor a legal ration of household fuel.

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In addition to this, however, there are definite indications of the development of a new upper class. This class is composed of the following elements:

a. The class of higher functionaries of the Party and of the para-state organizations

b. The body of higher-ranking employees in the public administration

c. The managers of the socialized plants

d. Some of the intellectuals who are acceptable and useful to the ruling regime.

This class today enjoys a considerably elevated material status in comparison with the mass of the populace, as to no small extent the result of measures taken by the Occupying Power, for example, supplemental monthly food rations, dubbed "Stalin" packages by the people, and the granting of tax-free bonuses to higher functionaries, a practice formerly completely unknown in Germany. It can also be definitely estabished that a not inconsiderable number of the members of this new upper class have completely deserted their former social status in their manner of living. This new "master class" is very closely bound up with the current political and economic system. However, it is therefore completely dependent upon the Occupying Power, since its members well know that they would be lost without this protection and support. It is therefore no wonder that these leading functionaries have become completely willing handy-men and executive organs for the Occupying Power's objectives. Numerous symptoms indicate that the mass of the populace feels an ever-increasing bitterness toward them.

The prerequisite for membership in this upper class is primarily political reliability in the Communist sense, while little value is placed on training and professional qualifications (to be sure the Occupying Power takes a different attitude in the choice of the managing personnel, for example, in the Soviet plants). The principle of evaluating only the one aspect, political attitude, has undoubtedly become more widespread under the present system in the Soviet Zone of Occupation than under the Nazi system. It has already been demonstrated in a number of instances that it leads unavoidably to very serious consequences for the efficiency of the administrative apparatus

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IV. The Separation of the Soviet Zone of Occupation From the All-German Economy

When the Potsdam Agreement was announced in the summer of 1945, the Germans considered the guarantee of an economic unity for Germany the most important positive aspect of the Agreement. When this promise was broken, the disappointment was great, since the Zonal boundaries became also economic boundaries, separating the Soviet Zone more and more from the rest of Germany.

1. Facts About the Separation and Interzonal Trade.

The setting up of economic boundaries suddenly split up an economic body which, in the course of a century of development, had become a closely-knit unit. The separation had particularly serious consequences for the Soviet Zone, since this Zone is dependent on the West for a great part of its basic materials.

An exchange of goods, in the form of interzonal trade, developed again only gradually, but most of it had to be carried out laboriously, according to trade agreements between the Zonal authorities. Even before the suspension of interzonal trade in June 1948, the volume was rather small. The Berlin Agreement, concluded in November 1947, provided for contract shipments of 156 million RM from each Zone. Including private business, a total volume of 800 million RM was expected, but even this figure is far below the volume of pre-war times. This great reduction in the exchange of goods, which is considerably greater than the reduction in production, is one of the most obvious effects of the breaking up of the economic unity of Germany.

In addition, the Zonal boundaries are not only a barrier for the traffic in goods, but also a barrier for the movement of persons and of ideas (the latter in the form of newspapers, magazines, books and motion pictures), and also have become a boundary line between two already fundamentally different economic and social systems. This will be discussed at a later point in this report.

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2. The Occupying Power's Motives in Separating the Zones

Representatives of both the Occupying Power and the Socialist Unity Party are constantly talking about the "Unity of Germany". They claim that they are the champions of German unity and accuse the Western Powers of trying to split the country. The preceding chapters show the true facts of the matter to be different, since it was the Soviets and the Socialist Unity Party who were chiefly responsible for jeopardizing and destroying the unity of Germany by the revolutionary changes which they instituted in the economic and social structure and in the political system of the Soviet Zone. The demand for unity made by the Soviets and by the Socialist Unity Party was probably meant in earnest, as long as they believed that they would be in control after Germany had been unified. But the Communist slogans turned out to have little appeal in the Western Zones, and now they have taken a line which, in practice, stands for exactly the opposite aim, while their ostentatious championing of the cause of German unity serves only as a mantle under which they hide their real, separatist tendencies. The thought of losing their position of absolute domination after the re-unification of Germany certainly plays an important part in the new ruling class's considerations. A statement made by the Sachsen Minister of Economics, Selbmann, at the Leipzig Trade Fair in the spring of 1947, is revealing: "If you ask me whether I am personally in favor of the Eastern Zone's joining the united British-American Zone, my answer is 'No'. The economic systems in the Zones have developed too differently for such a unification. The Western economy must first employ democratic methods like those employed in the East."

So far as the attitude of the Soviets is concerned, it is quite possible that they have applied Soviet ideas and methods to a set of circumstances which, in Germany, are entirely different, as they have done in many other fields. The principle of "sectioning", i.e. dividing the country into a number of units with the greatest possible amount of autarchy, plays a major role in the economic policy of the Soviet Union. The basis for such

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a system is much more favorable in the Soviet Union, with its tremendous size and rich resources, than in Germany, where a retrogression in economic cooperation among the individual sections of the country must lead to a great lowering of the economic level. Obviously, the Soviet Military Administration realized only gradually during the first post-war years that economic cooperation of their Zone with the other Zones of Occupation of Germany is a necessity.

In addition, the Soviets were undoubtedly also motivated by very basic considerations. One of the decisive factors probably was the circumstance that the Soviets obtained unobstructed powers for the accomplishment of their aims in the Soviet Zone as the result of the separation of the Zones. An over-all four-power administration would have hampered their progress, because they would have had to consider the principles established by the Control Council for the treatment of Germany, as regards both the exploitation of the Soviet Zone and the changing of the economic and social structure.

Since the summer of 1947, the disagreements over the Marshall Plan have caused the idea of integrating the Soviet Zone into an "Eastern Bloc" under Soviet leadership to gain in importance. The planned "Eastern Bloc", however, suffers from its lack of industrial potential, and the inclusion of the Soviet Zone in this bloc, despite the widespread dismantling, would be a valuable supplement, especially in the fields of precision industries, the lack of which is the Bloc's greatest weakness. This is surely a consideration which is sufficiently important to cause the Soviet Union to do everything in her power to maintain the present situation of a split Germany, because only the retention of this situation will enable her to integrate the Soviet Zone permanently into a Soviet-led "Economic Area". This tendency is already having the effect of increasing efforts to intensify the exchange of goods between the Soviet Zone, on the one hand, and the USSR and her satellites on the other hand.

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3. The Effects of the Separation of the Soviet Zone of Occupation

a) The effects in the Soviet Zone

The main effects on the Soviet Zone of the economic separation of the Zones is the inadequate supply of some very important commodities which are either not produced in the Soviet Zone or are produced only in small quantities, and which therefore must be obtained from the Western Zones. These are, chiefly: bituminous coal and coke, pig iron, steel and rolling mill products, certain types of machinery and equipment, such as for mines, steel mills and rolling mills (this creates enormous difficulties in the replacement of the plants which have been dismantled), machinery parts, industrial articles of all kinds, tools, metal products, transportation equipment (railroad cars, automobiles, automobile tires, and various chemical products.

In addition, the disproportion in the industrial structure of the Zones is quite noticeable. For instance, the wool-combing and wool-washing capacities of the Soviet Zone are too low as compared with the capacities for the further stages of wool processing, while the spinning capacity does not correspond to the capacity for weaving and other textile operations. The economic planning of the Soviet Zone is therefore constantly confronted by bottlenecks which result from its being shut off from the Western Zones.

b) Effects on the Western Zones

The insufficient shipments from the Eastern Zone have also created difficulties in the West. In contradiction to the opinion frequently advanced abroad, this applies to foodstuffs to only a limited extent, because the Soviet Zone itself is not self-sufficient in food at present, particularly after the absorption of large numbers of refugees. Even under normal conditions, the Western Zones could have obtained only sugar and limited quantities of grain and potatoes from the East. Intensification of the interzonal trade, or the abolition of the economic zonal boundaries, would be no solution to the food problem of Western Germany, since the most important agricultural surplus areas of Germany were located

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beyond the Oder-Neisse line, not in the Soviet Zone.

However, Western Germany bought from the Eastern Zone a number of mining and industrial products, such as lignite briquettes, chemical raw materials, fertilizer (potassium, nitrogen) paper, cardboard, various types of machinery parts, especially machine tools, textile machinery, woodworking and graphics machinery, iron and metal products, electrical, optical, and precision equipment, textiles and clothing, especially hosiery and knitwear, and various other commodities, such as glass and chinaware, toys, musical instruments, and stationery. It must be noted, however, that in the Eastern Zone the potential in a number of fields has been greatly reduced by dismantling operations.

In the long run, however, it will probably be of even greater importance that under present conditions the export potential of the Soviet Zone cannot be counted on for covering the import requirements of all of Germany or for balancing payments for the country as a whole. It has already been pointed out that a considerable part of the industry of the Soviet Zone (Sachsen, Thüringen, Berlin) accounted for a disproportionally large share of German exports. While exact data on this are not available, it can be assumed that the value of these exports exceeded the value of the share of German imports which fell to these areas. Thus, the foreign exchange obtained from the exports of this present-day Soviet Zone served to pay for part of the imports to other parts of Germany. In the past, there was a sort of three-way operation: Western Germany probably supplied more, in terms of monetary value, to the regions now constituting the Soviet Zone than it bought from these regions, while the latter exported in excess of their imports, and part of the profits from their exports served to pay for the imports to Western Germany. This economic balance, attained in the course of a long development, has been disrupted by the Soviets through their separation of the Zones. The USSR is thus able to obtain extremely high values from her Zone, while the other Occupying Powers are faced with the fact that their Zones of Occupation cannot achieve a favorable balance of trade without assistance.

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c) Effects on the Location of Industries

The existing disproportions make it necessary for both sides, as long as this situation prevails, to take compensatory measures in the form of establishing new centers of production to make up for the scarcity of products caused by the separation of the Zones. This means a faulty investment of capital, from the standpoint of all-German economy, provided the all-German capacity can be considered as adequate. These tendencies have become progressively more evident since 1947, and have manifested themselves in the increasing number of newly established plants or the expansion of existing ones. This development is particularly dangerous for the Eastern Zone, where the economic policy, by its expropriation program, has given it further impetus. Many of the expropriated industrialists (for instance in the hosiery and machinery industry) have set up new plants in Western Germany and thus transplanted branches of industry which used to be a Central German monopoly to the Western Zone for the first time. On the other hand, the Eastern Zone is making attempts, by creating new industrial capacity under its Two-Year Plan, to reduce its dependence on West German supplies, especially raw materials, which has increased greatly because of the dismantling operations.

In addition, there is also a tendency to move existing plants from the Soviet Zone (sometimes from Berlin also) to the Western Zones. These moves resulted mainly from the fight between private enterprise and the collectivism prevailing there, and from fear of further socialization measures. Understandable as these motives may be, the relocation measures are quite undesirable from the point of view of the German economy as a whole and the standpoint of a reunification of Germany at a later date. The present conditions, however, have made further relocation of plants practically impossible, even though the emigration of industrialists continues under the mounting Communist pressure.

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4. The Suspension of Interzonal Trade in 1948 and its Consequences

The blockade of Berlin, imposed by the Soviets at the end of June 1948, after the West German currency reform, and the suspension of interzonal trade, imposed by the Western Powers as a counter-measure, caused the trade to shrink to extremely small proportions for nearly a year, until, finally, after the last gaps in the blockade had been closed, it existed only in the form of smuggling. All unfavorable effects of the separation of Zones, discussed above, were aggravated by these measures. They created greater and greater economic difficulties for the Soviet Zone (especially from November-December 1948 on), and increased the efforts toward self-sufficiency and toward intensified commerce with the "People's Democracies". The loss of the Soviet Zone as a source of supply had a much slighter effect on the Western Zones, but even here the tendencies toward substituting production from local industries for the supply from the Eastern Zone increased.

When West-East conferences were held on the subject of the resumption of interzonal trade, after the end of the Berlin blockade, the magnitude of the problem was sonn realized. The problem is now much greater than it was before the currency reform, since West Germany has in the meantime changed from a controlled to a free economy. For the first time the significance of the existence within Germany of two economic systems which have become completely different is now demonstrated. It is also evident now that the Soviet Zone will have a difficult position as supplier in interzonal trade, as the result of the dismantling operations, the high demands of the Occupying Power, the shortages of materials and the generally low level of production. The Eastern Zone cannot supply in sufficient quantities those products which Western Germany needs most urgently (e.g. textile machinery), and a good portion of the goods which it offers for sale no longer meet the West German consumers' demands for higher quality. The fact that such a wide gap has developed within just four years is frightening. The interzonal negotiations of the summer of 1949 give a good indication of the difficulties which will arise when the two parts of Germany are again combined into a single unit.

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V. The Effects of the Soviet Economic Policy

Note: It must be remembered that in this chapter in particular the author had to limit his discussion to the bare minimum for reasons of space. Since not even an approximately complete treatment of this subject could be expected here, the author has contented himself with an attempt to point out the most important aspects in the individual paragraphs of this chapter and to illustrate them with selected facts and figures.

1. Spoliation of the Economic Potential of the Soviet Zone

The measures taken by the Occupying Power and its satellite parties, which were discussed previously, have undoubtedly reduced the economic potential of the Soviet Zone considerably. This applies primarily to the physical production materiel. This reduction of potential is most evident in the case of the dismantling operations, and these are chiefly responsible for the fact that the production capacity which is still left cannot be fully utilized. The demands of the Occupying Power on current production have caused a completely inadequate supply of food and of industrial products, thus limiting the possibility for investments for new construction or replacements, and have also reduced the efficiency of the workers. The overworking of the still existing mechanical means of production, mostly by orders placed by the Occupying Power, without possibilities of proper repair, overhaul, and replacements, is also of importance, especially since the Russian orders frequently have a very short deadline and can be filled sometimes only by working several shifts. The transport facilities are equally overtaxed, since requisitioning by the Russians has greatly reduced the rolling stock. The uranium deposits are ruthlessly exploited, at the expense of the rest of the mining economy, although it must be expected that the uranium exploitation is only temporary. A particularly serious case is the cutting of timber, which is far above normal. The climatic effects brought about

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thereby have also endangered the permanent capacity of agriculture. In this field, it is particularly painful to report that the quantity of timber ordered cut sometimes exceeded the capacities for transporting it by so much that this irreplaceable raw material was left to rot in the forests. (Note: A well-informed expert has estimated the timber demands of the Occupying Powers in all of Germany for 1945-46 at 12 to 14 million tons, of which only 1 million were sent to England, while 8 million were sent to Russia).

Like the material production potentials, the human production powers are also subjected to constant exploitation, because the still inadequate supply is not in the proper proportion to the output demand. The measures discussed in Section II, 4, which were intended to force increased production, aggravate this disproportion even more. The poor state of health and the high mortality rate in the Eastern Zone can be partially explained by this constant overtaxing of human labor power, which in turn is so great because the demands made by the Occupying Power on the production of the Zone are so high.

This overworking, and in addition, the general political, social and economic conditions in the Soviet Zone, are the reasons why so many highly qualified experts, especially scientists, industrial managers, engineers, chemists, and also skilled workers, have left the Zone during the past years. The number of qualified experts in the Zone is shrinking at a rate which is most alarming when one considers that for great sectors of industry the availability of highly qualified personnel is the factor which determines their location. It is becoming clear even now that some branches of industry (metallurgy, chemical industry) cannot maintain the previous level of quality in their production and that they are even less able to achieve any scientific or technical progress, simply because they lack the necessary first-rate personnel. The remodeling of the economic and the social structure, together with the emigration of the old expert workers, often has the result that the tasks of economic management are handed to completely unqualified men, a circumstance which also

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must have an unfavorable effect on production.

The exploitation of the economic powers of the Zone by the Occupying Power is therefore nothing but sheer spoliation, which at the moment may bring comparatively high returns, but which must weaken the economic potential of the Zone for a long time to come.

2. Agricultural Production

The most immediate effects of the spoliation discussed above, in respect to agriculture, are to be noticed in the livestock situation. The number of cattle was greatly reduced, especially in the immediate post-war period. This was particularly disastrous, because animal husbandry in the Eastern Zone always operated on a narrower basis than in the Western Zones, and also because the reduction in the number of cattle led to a reduction in the supply of natural fertilizer.

It must be considered a success of the economic policy of the Soviet Zone that the size of the area under cultivation, in general, has been brought back to pre-war figures.

The situation from the point of yield per hectare, however, is much worse:

Yields per hectare in the Soviet Zone (in 100 kg):

	Average 1935/39	1946	1947	1948
Grain	22.0	13.2	13.6	15.2
Sugar beets	309.3	198.4	139.1	219.4
Potatoes	180.4	120.8	98.8	143.7

Although the weather in 1948 favored a good harvest, the yields of the principal agricultural products were far below the pre-war level.

Therefore, the total harvest of 1946 and 1947, particularly the latter, were little more than half the pre-war harvests, in some respects even less than half. The 1948 harvest was also far below the pre-war level.

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Harvests in the Soviet Zone (in 1,000 tons)

	Average 1935/39	1946	1947	1948
Grains	6,825	3,600	3,494	4,140
Sugar beets	6,098	3,970	2,826	4,379
Potatoes	14,350	9,286	7,230	11,550

A comparison with Western Germany shows that the agriculture there came much closer to the pre-war level in 1948 than that in the Eastern Zone. The reasons for this lag in the Soviet Zone are primarily the unfavorable effect of the land reform (units under cultivation are too small, lack of qualifications of the new farmers, insufficient equipment), shortage of machinery and equipment, shortage of draft and food animals, insufficient supply of artificial fertilizer-except potassium-especially of phosphorus fertilizer, and qualitative and quantitative deficiencies in the supply of seeds.

The economic policy of the Soviet Zone has undoubtedly been much more successful in the matter of procurement of agricultural products. The system differs from that employed in Western Germany inasmuch as every farmer is assigned a definite quota which must be surrendered. This quota must be met under all circumstances. The staggering of this quota is primarily a means of encouraging the new and small farmers at the expense of the large farmers (See Section III, 3). The "free excess", produced above the quota, was originally to be sold on the free market, but the increasingly critical food situation has limited the free market more and more, and the free excess is today used mainly for additional supplies for industrial workers, for community kitchens, etc.

3. The Food Situation

During the first months after the end of the war the cities in the Soviet Zone suffered from an actual famine, and it was only during the winter of 1945/46 that a somewhat organized distribution system began to function. The official rations have been slightly raised several times, but so far it has not been possible to secure for the population a food ration which meets the physiological minimum, much less one which will pro-

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vide adequate nutrition.

Basically, the food situation in the Eastern Zone should be better than in the West, because the Soviet Zone has a somewhat wider basis of food production as compared with its population, at least as far as agricultural produce is concerned. Also, if the demands of the Occupying Power were not so high, the Zone would be in a position to pay for considerable quantities of food imports. But, in contradiction to the claims constantly made in the SED press until the summer of 1948, the food supply of the normal consumer in the Western Zones has always — except for temporary periods of acute shortages — been a little better. The status of food supply at the end of 1946 is shown in Appendix X. A comparison of the food situation in the various Zones, however, is made difficult by the varied types of rationing methods employed. The Soviet Zone uses a double system of rationing categories, one according to the size of the town, the other according to the type of work performed by the individual (very heavy workers, laborers, white-collar workers). The group "Others" was dropped in 1947. The greatest number of people are in the rationing category of "white-collar workers", which is closest to the category of "normal consumer" in the Western Zones.

On paper, the rations set by the Soviet Military Administration have always been filled, but in the case of products with high nutritional value, such as meat and fats, only by substituting "alternate products", e.g. substitution of fish for meat (at a 1:1 ratio) or cheese for meat, and substitution of meat or sugar for fats. These alternate products never were a fully equivalent substitute. The situation was especially critical in the spring and early summer of 1947, particularly in the large cities, because the potato supply failed completely and the potatoes were replaced in a quite inadequate manner by low-quality vegetables and similar products. As late as 1948, the supply of high-quality food was still very irregular.

For a true estimate of the food situation, the computation by calories is not enough. The statistically established number of calories is met in

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in the Soviet Zone by making the rations of foods with a comparatively high calorific value, such as bread and potatoes, rather high. These foods contain mostly carbohydrates. The supply of fats and albumen is much worse, and furthermore, the ratio between animal albumen and vegetable albumen is unfavorable. The poor state of nutrition which is visible everywhere in the cities of the Zone is caused to quite a considerable extent by this totally inadequate supply of albumen. Over a period of several years the allocation of fats in the Soviet Zone was not increased at all. The normal consumer was given a ration of 300 grams of fat per month, which was not increased until the summer of 1949, and then only very slightly, to 350 grams. This is less than one third of the fat ration of "Bizonia". Even so, it was not until 1949 that it was possible to issue these minimum rations actually in the form of fats. In the summer of 1949, substitutes were still issued for meat oftener than meat itself.

In contrast to most of Western Germany, the mass of the population of the Eastern Zone has not only been hungry over short periods of time, but has suffered from hunger constantly, and some of the population is still suffering. This is to be attributed, in addition to the low rations, to the fact that the possibilities of obtaining additional food are very slight. A proof of this is the fact that black market prices, especially for basic foodstuffs, were considerably higher in the Soviet Zone than in Western Germany even during the worst period, despite the smaller amount of money in circulation. With the strict methods of procuring agricultural products in the Eastern Zone, the farmers had much smaller quantities left for sale on the free markets than is probably the case in the Western Zones. Since 1948, free sale of even controlled foodstuffs has been started in the "HO" shops, but their prices are so high that most people can afford to buy additional food there only occasionally.

The causes of the poor food situation in the Soviet Zone are mainly the following:

1) Poor harvests

2) High demands by the Occupation army for its food supply (See Sec-

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tion I, 2)

3) Reparations and export shipments, especially of sugar (over one-half of the total production), and probably of grain, canned meat and canned fish.

4) Insufficient food imports, because the heavy demands of the Occupying Power do not leave enough surplus goods to be exchanged for imports.

5) Preferential food allocations to certain sectors of the population which are in favor with the Occupying Power, such as the higher political and administrative functionaries, and since the beginning of 1949 also some of the intellectuals.

6) Use of potatoes to make alcohol (See Section I, 10).

7) Faulty economic planning, deficient transport system.

4. Health Conditions and Mortality Rate.

It is obvious that constant hunger, combined with overwork, must have a great effect on the health of the population, and therefore a high mortality rate seems quite probable from the start. This is also indicated by the fact that the Occupying Power has made diligent efforts to prevent publication of population statistics. Nevertheless, these figures have become available, and they show the following harrowing picture (the figures for the British and US Zones are given for comparison):

Marriages (per 1,000 of population)

	1939	1946	1947	June 1948
Soviet Zone	11.4	6.9	8.7	6.4
US Zone	11.0	10.0	10.3	9.5
British Zone	11.5	8.4	10.0	10.1

Live Births (per 1,000 pf population)

	1939	1946	1947	June 1948
Soviet Zone	19.0	10.7	13.3	12.5
US Zone	20.9	17.2	17.8	17.2
British Zone	20.5	16.2	15.7	16.0

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Deaths (per 1,000 of population)

	1939	1946	1947	June 1948
Soviet Zone	12.2	22.8	18.9	13.8
US Zone	12.5	12.6	11.6	10.3
British Zone	11.7	12.3	11.3	8.9

Excess of Births (+) or Deaths (-)

	1939	1946	1947	June 1948
Soviet Zone	+ 6.8	-12.1	- 5.6	- 1.3
US Zone	+ 8.4	+ 4.6	+ 6.2	+ 6.9
British Zone	+ 8.8	+ 3.9	+ 4.4	+ 7.1

If anything can prove irrefutably the difference in the standard of living between the Soviet and the Western Zones of Germany, it is this compilation of population statistics. In all three years covered by this table the Soviet Zone showed mortality in excess of births, while the US and British Zones during the same period showed excess births. In 1946, the mortality rate of 22.8 and the excess mortality over births of 12.1 per 1,000 of population for the Soviet Zone represent an unfavorable population balance such as is not even approximated elsewhere in modern population statistics, except during periods of great epidemics.

We should like to give some individual statistics. Naturally, the situation is worst in the great cities and industrial regions. The following are the population statistics for the city of Leipzig:

	Live Births	Deaths	Excess of Deaths, Monthly Average
1945	6,068	13,101	586
1946	5,354	14,957	800
1st half of 1947	3,598	9,049	908

The demography of Leipzig thus deteriorated steadily up to 1947. Calculated on the basis of the whole year, live births in Leipzig were 1.2percent, deaths 3 percent!

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The excess of deaths, however, occurred not only in the large cities. In Landkreis Oschatz in Sachsen 767 deaths and only 488 births were counted during the first five months of 1947. The small Mecklenburg town of Beizenburg registered 216 births against 267 deaths in 1947, Meiningen in Thüringen 395 births against 784 deaths. The following individual figures are known for 1948:

	Births	Deaths
Schwerin	1,225	1,263
Wolgast	165	185
Gera	1,203	1,927
Meiningen	401	587

All four cities thus still show a considerable excess of deaths for 1948. The reduced number of deaths in the Zone as a whole during 1947 and 1948 is probably due to the fact that death had already reaped a grim harvest during 1945 and 1946 among those parts of the population whose health had been particularly impaired.

A well-known daily newspaper recently called the Soviet Zone the "Zone of Death". After studying the above statistics, the truth of this remark can no longer be doubted.

Many reports show that the state of health of the population continues to be bad. In particular, the number of tuberculosis cases is alarmingly high, and the infant mortality rate is much higher than in Western Germany. It is typical that the measures prescribed by "Stakhanov" order No. 234 include an energetic campaign against "malingering". This campaign goes so far as to give private physicians the right to certify a patient as sick for no longer than ten days. These measures are obviously designed to keep the percentage of sick persons low, despite the known effects of the food shortage on the state of health, and to get the last ounce of working strength out of the people. The mortality rate in the Soviet Zone is a horrible indictment against the policy of the Occupying Power, which has contributed to these excessively high figures by extreme reparations demands, by the use of profits from exports for its own purposes, and by using potatoes to make alcohol.

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5. The Raw Materials Situation

The raw materials situation in the Soviet Zone is greatly affected by the dismantling operations, especially in the basic industries, and also by the insufficient volume of trade with the Western Zones and by the lack of a great part of the former raw materials imports, because the considerable amount of foreign currency obtained by export surely is used to only a small extent for the purchase of foreign goods for the Soviet Zone, and because the trade with Western world markets, which is indispensable for the Soviet Zone industry, has been very greatly reduced. Since the Zonal domestic production of raw materials cannot even come close to meeting the demands of its industry, all these factors must necessarily lead to a constant shortage of raw materials, which is one of the chief reasons for its permanent economic difficulties. We have already stated that this shortage has become even worse since the suspension of interzonal trade in the summer of 1948. It would have had disastrous effects even sooner if the Soviet Zone had not had great stockpiles of materials on hand which permitted the industries to continue operating. These stockpiles are now (summer 1949) largely exhausted, with the exception of scrap metal, etc.

Especially critical is the situation in pig iron, steel and rolling mill products, which, in addition to domestic production, used to be obtained from the Western Zones and also from Upper Silesia. The dismantling operations reduced the steel capacity of the Zone to approximately 20 percent, and even before the suspension of interzonal trade, shipments from the Ruhr were by no means adequate to cover the demands of the Soviet Zone.

At the present level of production the requirements of crude steel in the Soviet Zone can be estimated at approximately 1¼ million tons per year. Compared to this figure, production in the Zone was:

1946	157,000 tons
1947	178,000 tons
1948	270,000 tons.

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The Two-Year Plan calls for production to be increased to 775,000 tons by the reconstruction of the plants at Riesa and Hennigsdorf. However, what has become known about the production of these plants is not very favorable from the standpoint of quality of the products. Even if the production target of the Two-Year Plan should be attained, the desired increase of production in other branches of industry in the Zone will prevent the steel production from meeting more than half of the domestic demand at best. The "Berlin Agreement" for interzonal trade provided for West German shipments of 200,000 tons of steel, but up to the summer of 1948 only 80,000 tons had been supplied Another example showing the serious situation with respect to iron is the following: During the fourth quarter of 1946 the entire pig iron production of the entire Soviet Zone amounted to the extremely low figure of 16,000 tons. Of this, the Soviet enterprises took 7,000 tons, which left only 9,000 tons for all other plants processing pig iron. The situation in non-ferrous metals, with the exception of copper (production at Mansfeld), is just as critical, because of the dismantling operations, Soviet priorities for their own use, and lack of imports.

Textile raw materials used to be imported from foreign countries. The import of wool, cotton and jute from the West has so far been at a minimum level. At times, especially in 1946, the USSR has supplied large quantities of cotton and wool, but almost exclusively for the purpose of having it processed for use by the Soviet Union, In 1948 and 1949, however, Soviet shipments have been greatly reduced. The dismantling of plants has had a very noticeable effect on the supply of synthetic fibers, although the Two-Year Plan calls for a partial replacement of the losses caused in this field by dismantling. At any rate, in the summer of 1949 the textile industry was in serious straits because of the lack of raw materials.

Timber, despite the very high felling quota, is also available for German purposes only in insufficient quantities, since nearly all of it is required directly or indirectly by the Occupying Power The situation in synthetic fuels is similar, while in synthetic rubber (Buna) it is

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better. However, the quality of the products of the rubber-processing industry is adversely affected by the almost complete lack of natural rubber. The basic chemical industries (e.g. soda) are seriously affected by the dismantling and the insufficient interzonal trade.

The responsible authorities of the Occupying Power seem to have realized only gradually that the assuring of raw material supplies is of decisive importance for the execution of the program of goods shipments from their Zone. Therefore they began in 1946 to encourage interzonal trade more energetically. However, it must be pointed out that all shipments of foodstuffs and industrial products to the Western Zones are made at the expense of the Soviet Zone's own supply. Gradually imports were also received from the Soviet Union itself (at first mainly cotton, wool, flax, and small quantities of pig iron and apatite). Since the suspension of interzonal trade an attempt has been made to increase trade with the USSR and with the "Peoples' Democracies". To some extent this attempt has been successful (increased imports of steel and rolling mill products, lime, etc), but the textile raw materials indispensable for Central German industry were still completely lacking in the summer of 1949. The quality of some of the shipments from the East and the Southeast has been poor. It is quite certain now that in some of the critically important aspects of the raw materials economy the development of trade with the "Eastern Bloc" cannot compensate for the lack of shipments from Western Germany and from the Western world markets.

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6. The Coal Situation

The basis of the Soviet Zone of Occupation's own coal economy is very narrow, since it has only a very small proportion of the German production of black coal (for the most part only in the Sachsen black coal region of Swickau - Oelsnitz). The rich brown coal resources, which accounted for 63.6 percent of the entire German production in 1938, are not an adequate substitute for the black coal, since brown coal and brown coal coke cannot be used for a number of purposes for which black coal or black coal coke are used.

The deliveries of Ruhr coal and Ruhr coke were therefore of decisive significance for the Soviet Zone of Occupation within the scope of the interzonal trade.

The Soviet Zone's own production has developed as follows (in 1,000 tons):

	1938	1943	1946	1947	1948
Black coal	3,513	2,919	2,304	2,753	2,832
Brown coal	119,647	165,101	105,960	101,792	110,880
Brown coal briquettes	30,334	44,619	27,960	26,830	30,000

In spite of intensive efforts to increase production (the "Hennecke" movement in mining!) the production of black coal in 1948 was thus about 20 percent below the figure for before the war. For brown coal and brown coal briquettes the 1938 level had practically been regained, but production was still far below the maximum figures for 1943; during the years 1938 - 43 heavy new investments had been made in these particular fields and new enterprises opened up.

The causes of the inadequate coal supply and the drop in the production level in comparison with former years are as follows:

1. Elimination of or sharp reduction in the former imports of black coal and coke from Upper Silesia and the Ruhr area.

2. Significant dismantling operations in brown coal mining (particularly the modern large machinery, such as excavators) and dismantling to an even greater extent in the briquette factories.

3. Over-aging of the means of production still remaining, extraordinary difficulties in effecting repairs, mainly because of the lack of necessary materials.

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4. Great demands of the Occupying Power for coal for special purposes, particularly for the ~~xxx~~ production of fuels and buna, most of which go to the Occupying Power.

5. Since 1947, export of considerable quantities of briquettes (Switzerland, Scandinavia).

During the unusually cold and long winter of 1946-47 the coal shortage (inadequate stockpiling during the summer) almost led to a catastrophe in all phases of the economy, a fact which is well demonstrated by a calamitous drop in the figures for industrial production and by a collapse of the transportation system. In spite of that, considerable additional dismantlings have been carried out in brown coal mining installations and briquette factories since the beginning of 1947, so that production declined again in 1947.

In accordance with the methods usually applied in the Soviet Zone of Occupation, the necessary reduction in consumption is achieved primarily by forcing households to cut down; only very minimal amounts of briquettes are issued for household heating. During the winter ~~if~~ of 1948-49 practically nothing but peat or crude brown coal, which can scarcely be used for the purpose, was issued in rural areas and in the small towns. In the large cities probably not more than two to four centners were distributed per household, except, of course, in the Soviet Sector of Berlin, where "for the sake of appearances" -- that is, because of the effect on the Western Sectors, which were suffering from a serious coal shortage as a result of the blockade -- an average of 18 centners per household were distributed. (This is also a characteristic example of how the present rulers in the Soviet Zone of Occupation are willing to tolerate the misery in their Zone of Occupation without consideration if it appears expedient to them for political reasons.)

The shortage of black coal also has a very serious effect on the railroad. Black coal has to be replaced by brown coal for firing the locomotives, a very irrational procedure, which leads to considerable loss in heating value. The coal supply for industry is very variable, but in general it is scarcely adequate.

With the loss of Ruhr coal since the blockade on interzonal trade in the

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summer of 1948 a very serious situation developed for the Soviet Zone of Occupation. It has, however, been possible -- apparently with considerable assistance from the Soviet Union -- to obtain considerably increased deliveries of Upper Silesian black coal and black coal coke from Poland. It even appears that the deliveries of Upper Silesian black coal are somewhat greater than were the previous deliveries from the Ruhr area. This is the only case in which it has been possible to compensate for the loss of international deliveries by increased barter with Eastern Europe. However, the coke delivered from Poland cannot compensate entirely for the loss of Ruhr coke because of the quality, particularly for use in metallurgy.

7. The Power Situation

In the supply of electric power the situation is similar to the the coal situation. The inadequate performance of the power plants is likewise due, in the first place, to losses in capacity caused by dismantling, in the second place to the over-raging of existing installations and the great need for repairs, and finally to the inadequate supply of coal. It has, to be sure, been possible to increase the production of electric power considerably during the post-war years. In spite of that, requirements cannot be fully covered, since -- as everywhere -- the demand has increased greatly in comparison with the pre-war period. The power situation in the Zone must therefore be termed a permanent power crisis, varying in degree from time to time. The supply of power is generally inadequate, so that resort must repeatedly be had to various expedients, such as increased night work, which causes serious health damage because of the poor nutritional status of the population. Just as in the case of the coal supply, the Soviet plants and deliveries for the Occupying Power take absolute priority in the supply of electric power also.

8. The Transportation Crisis

During the entire post-war period the Soviet Zone of Occupation has been under the pressure of considerable difficulties in connection with transportation, the extent of which has at times been so great that they must be described as a catastrophe (for example, in the winter of 1946-47). The reasons for this are:

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1. Commandeering of a large part of the rolling stock and motor vehicles park by the Occupying Power. The stock of serviceable railroad rolling stock has changed as follows:

	1936	1948
Locomotives	6,800	3,000
Passenger cars	17,000	5,200
Freight cars	146,000	68,000.

The number of motor vehicles in the Soviet Zone of Occupation decreased as follows:

	1 July 1938	1 July 1948
Trucks	79,000	32,000
Passenger cars	294,000	51,000
Motorcycles	394,000	135,000.

2. Particularly extensive dismantlings: tearing up of the second track on almost all lines, even the most important main lines through, and in 1947 the complete removal of a number of secondary lines; also the dismantling to a considerable extent of auxiliary installations, such as signal equipment.

3. Poor condition of the superstructure (wearing out of tracks) and of rolling stock; inadequate facilities for repairs, especially because of the lack of replacement parts.

4. Inadequate supply of coal, predominant use of brown coal briquettes for firing, resulting in rapid wearing out of locomotives.

5. Impossibility of building any new transportation equipment because of the extraordinarily extensive dismantlings in the branches of industry concerned (locomotive and car construction, automobile industry, very small capacity for rail-rolling) and the lack of materials.

6. Inadequate rations of motor fuel and automobile tires for civilian motor vehicles.

7. Considerable requisitioning of rail lines and rolling stock for the Occupying Power's own purposes (shipment of dismantled installations and reparations goods, troop transports, etc.) In making shipments to the last, the rolling stock sometimes has to travel very long distances, and according to experience some of it did not return to the Zone during the first years.

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8. Considerable financial drains on the Reichsbahn (and on the postal service) for the Occupying Power. The Reichsbahn must therefore limit its other expenditures very greatly, and can frequently not even manage to handle orders the execution of which would be possible from the point of view of material and capacity.

As a result, coverage of civilian requirements, particularly passenger traffic, has been reduced to a minimum in the field of transportation also. Freight traffic enjoys absolute priority, in order to make possible the fulfillment of the frequently very difficult transportation plans. As a result, passenger traffic must be neglected and its status can no longer be measured by European standards, considering the small number of trains in operation, the condition of the equipment, and the numerous delays.

An attempt is being made to supplement rail traffic by utilizing other means of transportation to the greatest extent possible. For the reasons already listed, these possibilities are limited in the case of motor vehicle traffic, primarily because of the shortages of replacement parts and tires (the tires produced in the Zone are very poor). However, fairly good results have been attained by the use of inland shipping, which, however, is limited mainly to the Elbe, the Mittelland Canal, and the waterways in the border areas.

9. Volume of Industrial Production and Construction Activity

At the Foreign Ministers' Conference in May 1949 in Paris, the Soviet foreign minister, Vyshinsky, maintained that in March 1949 industry in the Soviet Zone had already reached 9-.6 percent (figure partly illegible) of the 1936 level. This statement goes far beyond the figures named by official sources in the Zonal administration in 1947 and 1948, which regularly varied greatly among themselves, ranging from 52 to 75 percent of the 1936 level. A "production index" issued by the Central Administration for Industry in the fall of ~~1948~~ 1947 gave a figure of 61.9 percent for May 1947, without, however, as appears to be the usual practice, giving any precise information on the method used in establishing the figure. All these data are extremely unreliable and fail to agree with other known facts and

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figures. It will be established in the following that the volume of industrial production in the Soviet Zone -- even apart from the differences in quality and the very much altered conditions of the production has at most attained 55 to 60 percent of the 1936 level.

The course of development of industrial production was more or less as follows: Production started comparatively soon after the beginning of the Occupation, since in contrast to the methods of the Western Occupying Powers the Soviet Military Administration did not undertake a special licensing of plants. Since production could be supported for the most part on the basis of reserves of supplies, it reached a comparatively high level by fall of 1946. The high point was reached during the fourth quarter of 1946. However, during the winter of 1946-47, as the result of the catastrophical climatic conditions, the shortage of coal and of power, and the transportation difficulties, it experienced a sharp drop. In April 1947 recovery began, but there were still considerable difficulties to be struggled with, so that it was not until the spring of 1948 that the level of late fall 1946 was again reached. The volume of industrial production for 1948 may have been about 10 to 15 percent higher than the level in the spring, after making adjustments for price changes.

For various reasons the currency reform in the Soviet Zone of Occupation was not able to achieve as great an increase in production as was the case in Western Germany, principally because of the growing difficulties resulting from the interruption of interzonal trade. It was possible, to be sure, to get a number of dismantled plants back into operation to a moderate degree. On the other hand, in some important branches of production, particularly in the textile industry production dropped because of the shortages of raw materials. The present level therefore apparently cannot be much above that of the preceding year. The official figures, which are intended to show a fairly considerable increase in production, generally refer (aside from their questionable reliability) to branches of industry which are receiving special attention within the framework of the Two-Year Plan, while no corresponding data are furnished for other branches of industry.

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The level of production at the end of 1947 can be assumed, on the basis of various calculations, to have been at best 43 percent of the 1936 level. Calculating the present level of production on the basis of the production capacity remaining after the war damage and dismantlings and its percentage utilization (70 percent at most, on an average for industry as a whole), or conversely, reckoning on the basis of the number of persons employed and the amount of work productivity, which certainly does not exceed 60 percent of the pre-war standard on the average, one comes to the conclusion in both cases that the level of industrial production in the Soviet Zone of Occupation in the spring of 1949 must have been about 55 percent of the 1936 level.

So far as official figures can be considered as the basis for a moderately reliable analysis, they confirm this estimate. The following table gives a comparison between 1948 and 1936 for several important basic materials for which the quantitative production is known:

(In 1,000 tons)

Production of:	1948	1936	1948 as % of 1936
Black coal	2,753	3,600	77
Brown coal	110,880	122,400 (1938)	90 (% of 1938)
Raw iron	175	200 (approx.)	87.5
Raw steel	270	1,198	22.5
Rolling mill products	140	900	15.5
Sulfuric acid	165 (approx.)	300	52.0
Soda	80	over 300	27.0
Caustic soda	25	120	21.0
Cellulose (in tons)	120	245	49.0
Chalk (Rüdersdorf Chalk Works)	34 (production order)	80	42.5

Simply these generally very low production figures for important raw materials make it extremely improbable that total production could have almost reached the 1936 level, as Vyshinsky maintained, especially since the imports of raw materials (including interzonal trade) have decreased even more significantly for the most part.

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This estimate is confirmed by production figures for several important branches of industry for the first three quarters of 1948, issued by the Vice-president of the German Economic Commission, Fritz Selbmann, at the end of 1948. Projecting these figures for an entire year makes it possible to make a comparison with production values obtained during the German industrial census of 1936. However, it is also necessary to make adjustments for price differences, which has been done very conservatively (in all cases, the methods employed in the following calculations are more likely to be too favorable than too unfavorable to the Soviet Zone). The following comparison was thus obtained:

Branch of Industry	Value of Production in Millions of Marks			1948 as % of 1936
	1936 In 1936 values	1936 In terms of 1948 values (Price increases taken into account)	1948	
Metallurgy	821.8	1,167.0	322.4	27.6
Machinery construction	1,065.9	1,705.0	843.0	49.5
Electrical industry	255.2	408.0	204.0	50.0
Textile industry (not including hosiery and knit-goods industry)	2,013.8	3,424.0	1,435.0	42.0

It should be added in connection with the figures for the machinery industry that the production of the agricultural machinery industry in 1948 is estimated by a very well-informed expert at 35 percent of the 1938 level.

Looking at these figures, one must come to the conclusion that the comparative figure given above, 55 percent of the 1936 level, is much too favorable, and that production actually does not exceed half the level of 1936. This low level of industrial production is one of the best indications, along with the extraordinarily high mortality rate mentioned above, of the economic effects of the exploitation of the Soviet Zone of Occupation and the weakening resultant impairing of its economic potential.

The SED's Two-Year Plan is trying to increase industrial production by 35 percent during the years 1949 and 1950. Even if this goal (actually a

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very modest one) should really be reached, industry in the Soviet Zone of Occupation would have reached only two-thirds to three-fourths of the 1936 volume by the end of 1950, whereas the industry of the Bizone has already reached 85 - 89 percent of 1936 production today (not considering, of course, the changed composition of production).

The situation in the construction industry is not very different. In 1936 the net increase in dwelling units in the present Soviet Zone of Occupation was over 75,000. In contrast, the new construction of a total of 5,000 new dwelling units is planned for 1949, not including the program for houses for new peasants. Under this latter program 40,000 houses and industrial buildings are planned. Estimating 20,000 of these as dwellings -- which apparently is really too high -- and taking into account also, in the proper proportion, the repair of 15,000 dwellings, one obtains a figure for net increase of about 35,000, or not even half of the 1936 figure. Naturally, the production of those branches of industry which work for the construction industry must be at a corresponding level.

10. Unprofitableness of Enterprises

For various reasons which are not dependent upon the actions of the managements (but which are frequently intensified by poor management) the financial situation of enterprises in the Soviet Zone of Occupation has worsened considerably. The principal reason is the great increase in costs, resulting from the following: a) Serious deterioration of the mechanical equipment and of other means of production as the result of dismantlings and wear. b) Extensive compulsion to change over to individual production instead of mass production. c) Direct and indirect increases in the prices of raw materials and auxiliary materials, of transportation facilities, etc. d) Increase in the cost of labor, partly as the result of direct wage increases (for example, the elimination of the women's wage scale on the basis of "equal pay for equal work") and partly because of the decreased work productivity.

On the other hand, the SMA, as has already been mentioned, holds rigidly to the existing ceiling prices of the end of 1944. Price increases are not

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permitted even when the plants can show that they are no longer able to cover their costs at those prices. A considerable portion of production must therefore be subsidized directly or indirectly. In the "people-owned" plants, profits are equalized internally between the plants which are still producing a profit and those which are not; or else the deficits are covered from public funds. For certain branches of production, for example, coal mining and the production of cellulose, public subsidies are paid out in considerable sums. Private enterprises usually resorted to the expedient, up to the time of the currency reform, of selling part of their production on the black market and covering the losses incurred on the remainder of their production, especially on the deliveries to the Occupying Power, by the considerably higher black market profits. As a result of the decrease in purchasing power caused by the currency reform and the constantly stricter economic controls, this practice has become more and more difficult, so that a large proportion of private enterprises are using up their capital today (as are apparently the majority of the people-owned plants).

For the numerous plants which have been given reparations assignments there is the additional difficulty that payments for reparations deliveries are generally very much delayed, frequently by as much as five or six months.

11. Distribution of Industrial Goods

It was estimated in Section V, 9 that the present volume of industrial production apparently is only about 50 percent of that of 1936. In addition, about half of the production of finished industrial goods must still be going to the Occupying Power, in the various ways described in Section I of this report. In addition to that, there are the deliveries for interzonal trade and for export, so that not more than a third of present production, or about 15 to 20 percent of the 1936 production, is available to cover the requirements of the German economy and the German population in the Zone. The per capita quota is still smaller, since the population has increased as the result of the influx of refugees. As a result, the legal distribution of consumer goods, such as textiles, shoes, furniture, household articles, soap, etc., has so far been very meager for "normal consumers". Only a few special groups (OCF, refugees,

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bombed-out persons) have obtained certain additional supplements legally, but even these are very limited.

A few examples of the poor supply situation: In Land Sachsen, with about 5½ million inhabitants, one of the most important centers of the German textile and clothing industry, there were 700 pieces of knit underwear available for the entire population in the first quarter of 1947. The supply plan for the fourth quarter of 1947 provided for a distribution of 420,000 pairs of leather shoes for the entire Zone; since the Zone has a population of about 17 million inhabitants, it would take about ten years at this rate for each inhabitant to receive one pair of leather shoes. In Sachsen-Anhalt, with a population of 4.16 million, 2.3 million pairs of shoes were distributed during three quarters of 1947, but only 405,000 of them were leather shoes. A report from Mecklenburg in March 1949 complains about the very poor supply of medical products; there was, or is, absolutely no supply on hand of bandages, narcotics of all sorts, strophantin, high-grade sulfonamides, grape sugar, insulin, thyroid preparations, and ecbolics.

These are only a few examples. They could be multiplied as many times as desired. In the matter of supplying the economy with the means of production the situation is not much better, but for reasons of space no attempt will be made here to give examples in this connection.

Whenever supplemental quantities of goods become available for the populace, as the result of an effective increase in production or decreased assessments by the Occupying Power, these goods are almost always sold by the HO. The prices in the "free shops" are so high, however, that the goods are within the reach of only a small group of consumers with higher incomes.

An improvement in this miserable situation appears to be possible only if the demands of the Occupying Power, including the purchases made by the Russian trade companies, are considerably reduced and if the import of raw materials is assured.

12. Constant Influx of "Free Purchasing Power"

By the blocking of all bank and savings accounts in the Soviet Zone of

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Occupation immediately after the beginning of the Occupation a considerable part of the ~~[illegible]~~"free purchasing power" was paralyzed at first. However, cash continued to circulate in full amount. The amount of money in circulation has steadily increased since then in the following ways:

1. Influx of Occupation currency (see Section 1,10).

2. Payments for deliveries to the Russians and purchases of various sorts were paid for from the cash reserves of the Reichsbank and other banks which had been taken over by the Occupying Power, that is, with purchasing power which had been blocked but was now put back into circulation.

3. Payment for reparations deliveries and other deliveries to the Occupying Power (for example, to the Red Army or to the Soviet trade companies) were made from the receipts of the German Finance Administration or from funds which were turned over to the Zonal Finance Administration by the Land Governments and by the latter to the SMA. To be sure, some purchasing power was at first withdrawn by the increase in taxation, but the money taken in was put back into circulation in the form of wages, ~~[illegible]~~ etc., and represented purchasing power, whereas the products which it had been used to manufacture had been shipped out to the Soviet Union, so that the quantity of goods offered for sale was not increased.

In spite of the blocking of bank accounts the volume of purchasing power in the Zone was thus constantly much larger than the volume of goods offered for sale. Persons with good knowledge on the matter believe that the influx of new currency, by the means mentioned, is at least as great as the amount withdrawn by the blocking of the bank and savings accounts.

The so-called "currency reform" in the summer of 1948 made no basic change in this situation. Since the large amounts of currency held by the Occupying Power and the SAG's were exchanged at the ratio of 1:1, and public funds, including those of the "people-owned" plants (although there were some later adjustments) enjoyed considerable preferential handling, only a part of the surplus "free purchasing power" was eliminated. But even if an actual ~~[illegible]~~ balance between money and goods had been achieved at the time of the reform, it would soon have been upset so far as goods were concerned by the

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Occupying Power's uncompensated withdrawals from the Zone, because this continued, uncompensated siphoning off of a part of the production constantly creates a new surplus of purchasing power. The effect of this is now showing up very plainly: in spite of the strictly restrictive credit policy (which is jointly responsible to a considerable extent for the worsening of the economic and employment situation since the beginning of 1949), and in spite of energetic efforts to effect a reduction in the circulation of cash (based on a rather primitive concepts of money theory), the last mark is very weak and will remain so as long as the balance between money and goods in the economy is constantly being disturbed from the point of view of goods.

13. Impossibility of Economic Recovery under the Soviet Zone's Own Powers

Behind the deceptive facade of great economic activity the present economic situation of the Soviet Zone of Occupation is actually characterized by a permanent state of crisis. This is expressed primarily in the low level of agricultural production, the completely inadequate nutritional situation with its catastrophic results for the health conditions, the low level of industrial production in comparison with the pre-war period, the inadequate supply of coal, power, and industrial goods for the economy and the population, and the likewise inadequate functioning of the transportation system. From what has been said so far it is certainly clear that these difficulties cannot conceivably be overcome on the basis of the Zone's own resources, even if all opportunities are utilized to the utmost. The "reconstruction from domestic resources" which is constantly being propagandized by the SED (and which is generally contrasted with the "enslavement of Western Germany by the Marshall Plan for the benefit of American monopolist-capitalism and imperialism") is simply a phrase used for agitation purposes. Its realization would mean the perpetuation of the frightful suffering and sacrifice of the population of the Zone. It would be possible to set up an economic and supply system capable of functioning more or less normally, one which would assure the Soviet Zone of Occupation an average European standard of living, only under the following conditions:

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1. Reduction of the Occupying Power's demands on current production to a toterable level, whereby the population can be supplied with consumer goods to an extent corresponding to an average European standard of living and the economy can be furnished with the materials and means of production necessary for reconstruction, replacements, and current operation It would also be necessary -- quite apart from the question of ownership -- to regulate the use of the production of the SAG's, with their share in production amounting to about 25 percent.

2. Utilization of the total proceeds from exports to pay for real imports, not to benefit the Occupying Power.

3. Restoration of unrestricted economic exchange with the Western Zones.

4. Reconstruction of those dismantled industrial installations which are vital for the Zone, with the help of deliveries from the Western Zones or from abroad.

The experiences of the last four years show that the separation of the Soviet Zone of Occupation from the German economy as a whole must have fatal consequences, because the mutual division of work and expansion between the two halves of Germany has become much too limited. Since the Soviet Zone of Occupation, as already mentioned, was very dependent upon imports, cutting it off from the World markets must also have unfavorable consequences. Even the amalgamation of the Soviet Zone with an East European and Southeast European economic bloc cannot, as experiences since the blockade of interzonal trade have shown, eliminate the shortages and difficulties of the Zone, except to a very limited degree. It is true that the Soviet Zone's requirements for supplemental food could to some extent be covered in this way in the future. The situation is considerably less favorable in the case of raw materials, and the greatest difficulties would be encountered in the procurement of such industrial products as the Soviet Zone does not produce. The inadequate supply of many types of materials in the Soviet Zone since summer 1948 shows that the economic potential of the Soviet Union and of the "people's democracies" is not great enough to compensate for the loss of economic relationships with the West.

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If this had not been the case, the Soviet Union simply for political reasons would certainly have made every effort to eliminate the crisis which developed in the Soviet Zone of Occupation as the result of the counter-blockade.

Only by the reestablishment of economic exchange with the remainder of Germany and with the Western world will the Soviet Zone of Occupation be able to overcome the present conditions of poverty, want, and constant latent crises.

14. Summary

If one attempts to draw a conclusion from the preceding Sections, one must establish the fact that the actual economic situation in the Soviet Zone of Occupation is quite different from and much worse than the rosy picture which the Occupying Power and the SED constantly attempt to depict in their oral and written descriptions. The fact that it is proclaimed loudly and constantly repeated, does not make it any truer, and anyone who has an opportunity to compare it with reality would always be forced to the conclusion that those who sing praises of the Soviet Zone do not hesitate to grossly falsify facts and figures. The effects of the Soviet economic policy in the Zone are absolutely unfavorable, both for the population and the economy of the Zone itself and for the Western Zones, and furthermore for the Western Powers. The latter would have to send less in supplemental supplies to their own Zones of Occupation if German economic unity still existed, if the economic potential of the Soviet Zone of Occupation had not been undermined far beyond the specifications of the Potsdam Agreement, and if the Zone's current production were not being commandeered to such an exorbitant degree for the Soviet Union.

But what about the consequences for the Soviet Union? At first glance they appear to be only favorable. She has without doubt extracted values of very considerable extent from the Zone: dismantled industrial and communications installations, deliveries from current production, war booty, services by forced labor, results of research, the property of large industrial installations, and much more.

In spite of this the question seems justified whether or not the Soviet

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economic policy has really attained the maximum which was attainable. The answer must be in the negative.

It is an open secret that only a small proportion of the dismantled industrial installations are again producing in the Soviet Union. The majority were turned into scrap. If the Soviet Union had left these installations in Germany, a considerably greater amount of production could have been achieved and consequently a greater amount of reparations, and still the population would have been raised above their present miserable supply level. This would have meant a better working performance and also a less inimical attitude on the part of the populace toward the Occupying Power. Many hindrances to the achievement of a higher level of production would also have been eliminated if the Occupying Power and the SED had dispensed with the precipitate and radical realization of their revolutionary ideals in agriculture, industry, and trade, and if the economic unity of Germany and economic exchange between the Zone and the World markets of the West had been reestablished. However, it does not appear that any change is to be expected in the basic policy adopted so far. It is also to be feared that the standard of living of the population will not in the future be raised appreciably above the present standard of misery, and that the number of inhabitants will become adapted to the restricted nutritional area by means of a continued excess of deaths.

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VI. The Basic Significance of the Developments in the Soviet Zone of Occupation

1. Disadvantages for the German Economy

The result of our analysis so far is as follows: An appreciable portion of the economic potential of the Soviet Zone of Occupation is destroyed. The potential still remaining is to a great extent commandeered for the Soviet Union. For the remainder, exchange with the rest of Germany and with the World markets is restricted to a bare minimum. Under these conditions an economic recovery in the Soviet Zone of Occupation on the basis of its own resources is not possible. But even if German economic unity were restored there would still be the following permanent results:

1. To the extent to which the capacity of the Soviet Zone of Occupation has been decreased as the result of dismantlings and the deportation of workers, this means either a permanent weakening of the German economy as a whole (and considerably beyond the limits set down at Potsdam) or else the necessity of a reconstruction with corresponding expenditure of capital, materials, and manpower. It therefore appears absolutely essential, in evaluating the industrial capacity for the Western Zones, to take into account this decrease in the economic potential of the Soviet Zone of Occupation, which so far exceeds the Potsdam specifications.

2. If the Soviet Zone of Occupation is to remain separated from the rest of Germany for a long period of time, industry in the Western Zones will have to be increased, in order to compensate for the imbalance which has developed. It will be especially necessary to expand production for export. Capacities in the Western Zones will also have to be expanded if the Soviet Zone of Occupation remains united with the rest of Germany, but the Occupying Power continues its exploitation at the present rate. The achievement of an average standard of living for all of Germany as specified at Potsdam will in this case not be possible.

3. The reestablishment of German economic unity can no longer be carried out unless the Occupying Power and the SED which it supports modify, at least in

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part, the changes which have been made in the economic system in the Soviet Zone of Occupation.

2. Strengthening of the Economic and War Potential of the Soviet Union

Without any doubt the Soviet Union, by means of the economic policy followed to date in her Zone of Occupation, has achieved a considerable increase in her economic potential. As already mentioned, it is questionable to what extent this has been the result of the dismantlings, since it is certain that only a comparatively small part of the dismantled installations can be utilized in the Soviet Union. On the other hand, it is certain that this increase is due to the deportation of workers and to an even greater extent to the deliveries from current production. A not inconsiderable portion of these deliveries contributes directly to the strengthening of the Soviet war potential. During the early period entire war plants frequently worked for the Soviets. However, these plants were torn down in the course of the wave of dismantlings in the fall of 1947, because of the projected Allied inspections in all four Zones of Occupation, and were shipped to the Soviet Union. Nevertheless, there are enough reliable reports on hand to indicate that even since that time part of the industry in the Soviet Zone of Occupation is still working on Russian assignments directly connected with the armaments program, even though the fact is concealed; the work generally consists of the finishing of individual components.. Perhaps even more significant is the commandeering of Germany's scientific and inventive resources. These resources are at the Soviet Union's disposal primarily through the medium of the technical development and construction bureaus, also as the result of the activities of scientists who were taken to the Soviet Union. The work which they are doing also contributes primarily to the direct strengthening of the Soviet Union's war potential.

The sizable deliveries of means of production, with which it has been possible to create new industrial capacity in the Soviet Union itself, are likewise significant. However, even the deliveries of consumer goods have indirectly increased the Soviet war potential. It is well known that under the Russian Five-Year Plan the consumer goods industries have been left out of

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consideration to a great extent. But even a dictatorship like the Soviet Union cannot completely ignore the population's demands for an improvement in the supply situation over a long period of time. The deliveries of consumer goods from the Soviet Zone of Occupation make it possible for the Soviet Union to make more such goods available to the Russian people without having to divert corresponding parts of her own industrial capacity from war production in order to do so. It would therefore be wrong to assume that reparations deliveries of consumer goods from the Soviet Zone of Occupation are of no significance for the Soviet Union's war potential.

The Sovietization of a part of the industry of the Zone [illegible]:

a. The utilization of the production of the Sovietized plants for the strengthening of the production potential of the Soviet Union

b. The control of several decisively important key items in the total economy by the Occupying Power.

In addition, the amounts of foreign exchange which the Soviets have obtained and are still obtaining from exports from the Zone are of considerable significance. The Soviet Union has also increased her international purchasing power by means of the [redacted] precious metals which were acquired by barter on the legalized black market.

Considerable additional profits in rubles also accrue to the Soviet national budget in connection with reparations deliveries and purchases by Russian trade companies, inasmuch as at least a part of these deliveries are sold to the people in the Soviet Union and the German ceiling prices are much lower than the selling prices in Russia at the official exchange rate.

Finally, the utilization of great numbers of German workers for uranium mining (atomic energy) and for the expansion of the Baltic harbors is also a direct contribution to the strengthening of the Russian war potential; the latter, in addition to facilitating exports and thereby the acquisition of foreign exchange, also certainly serves military purposes.

All in all it may therefore be said that practically all aspects of the Soviet economic policy in the Soviet Zone of Occupation serve to strengthen

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the economic potential of the Soviet Union, and also serve to a preponderant degree to strengthen her war potential directly or indirectly. This is true even of measures which at first glance appear to have no connection, such as the promotion of interzonal trade. For even the bringing in of raw materials and other production requirements from the Western Zones of Germany serves primarily the purpose of strengthening the Zone's ability to deliver reparations.

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3. Extension of the Sphere of Influence of the Bolshevist Economic System

It has already been pointed out that there is another aim, in addition to that of exploitation and sometimes in contradiction to it, namely a political aim, that of extending the sphere of influence of the Bolshevist system. Seen from this point of view, the Socialist Unity Party is a link in the chain of the Soviet satellite states from the Baltic to the Black Sea, and the methods of domination and of reform are the same as those employed in the satellite states.

These aims of the Soviets can be explained in two different ways:

1. It is possible that the creation of a belt of [redacted] satellite states around the Soviet Union is an outgrowth of the Soviets' desire for protection against an expected attack from the West, and that the leaders of the USSR feel this protection to be adequate only if the satellite states have been established upon the same internal basis as that of the power dominating this area.

2. It is equally plausible that the policy of the present-day USSR is also dominated by the aim of a Bolshevist World Revolution or of imperialist control of the rest of Europe. The areas of Eastern and Central Germany are undoubtedly areas of great strategic and political importance for the realization of this aim (effects of this Soviet position on Czechoslovakia and Poland).

The author finds a number of factors which seem to indicate that the second explanation of the Soviet aims is the more likely.

4. Psychological Defeats of the USSR and of Communism

The USSR in the Eastern Zone of Germany is obviously in a dilemma between two conflicting aims: the exploitation of the economic capacity of the Zone in favor of the Soviet Union's own economic potential, on the one hand, and the utilization of the dominant position achieved in the Soviet Zone for the purpose of propagating World Communism. Experiences to date indicate that these two aims are difficult to bring into accord with one another. A permanent stabilization of Communism in the Eastern

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Zone requires gaining the favor of the population, or at least requires their conviction that Communism is the lesser evil as compared to the system which the Western Powers represent. Despite all propaganda, cultural activities, and the unquestioning support of the Socialist Unity Party, the Soviets have not succeeded in this aim, because they have conducted a simultaneous exploitation campaign of previously unparalleled proportions. It can be stated with absolute certainty that the USSR, the Soviet system, and Communism have made no psychological gains with the population of the Soviet Zone; on the contrary, they have lost ground. The effect of direct contact with Communism as an actuality has been an absolutely negative one, even among those sectors of the population of the Eastern Zone which once showed themselves open to Communist ideas. The reasons for this are the following:

1. The personal behavior of the Russian troops, especially rape, theft, and other excesses.

2. The system of political oppression instituted by the Occupying Power (kidnaping of workers, arrests without trial, revival of concentration camps, suppression of free expression of opinions).

3. The economic exploitation and the consequent low standard of living of the German population.

4. The ruthless exhaustion of the labor potential of the German population.

5. The direct contact with the Russians, who, after three decades of Soviet rule, have a lower standard of living and of civilization.

This revulsion of the population against Communism means an important opportunity for the Western Powers and the ways of life and the economic systems which they represent. However, three points must be considered here:

1. The entire propaganda machinery is almost exclusively in the hands of the Soviets and of the Socialist Unity Party, and thus the population is given only one side of the news. In due course of time, this completely unilateral reporting of news must have an effect on the population, especially on the youth.

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2. As the fate of the "bourgeois" parties, the LDP and the CDU, shows, all sources of resistance against the new totalitarianism are fought with progressively more brutal means.

3. Hungar, distress, and fear must lead the population to apathy, to the loss of intellectual and spiritual resistance.

In other words, there is a time limit on the Western Powers' opportunity.

5. The Significance of Berlin

Berlin, an island of Four-Power control within the Soviet Zone, is of the greatest importance for future decisions on the fate and the political alignment of the Soviet Zone. The fact that the sectors controlled by the Western Powers are located directly within the Soviet Zone is a handicap of the first magnitude for the attainment of the aims of Communism and of the Socialist Unity Party, chiefly for the following reasons:

1. The Western Sectors of Berlin represent the only immediate outpost of the Western World within an area otherwise completely under Bolshevik control. The existence of this situation in Berlin makes it impossible to close the Iron Curtain as tightly as it would be closed otherwise. Thus it is still possible to get a fairly good picture of conditions in the Soviet Zone through Berlin. Without Berlin, obtaining such a picture would be a much more difficult task. Despite all travel restrictions, some of the inhabitants of the Soviet Zone can still maintain personal contact with the West, exchange opinions with people there, buy Western newspapers, magazines, and books, and breathe an air different from that of a totalitarian state, simply by taking a trip to Berlin. Especially for those who are consciously fighting against the Bolshevization of the Eastern Zone, this intellectual and spiritual uplift provided by the Western Sectors of Berlin is a factor of tremendous importance. Its importance can be judged properly only by someone who has himself lived under the oppression of the totalitarianism of the Eastern Zone.

2. The Western Sectors of Berlin afford the inhabitants of the Soviet Zone a glimpse of a true democracy as distinguished from the

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pseudo-democracy of the Eastern Zone. A great role is played by the free press of West Berlin in this connection. It is regrettable, however, that the low exchange rate of the Eastern Mark makes it difficult for visitors from the Soviet Zone to buy newspapers, magazines and books in the Western Sectors of Berlin. Of equal importance are the independent existence of the Social Democratic Party, the chance for the "bourgeois" parties, the CDU and the LDP, to practice truly democratic politics, as contrasted with the situation in the Eastern Zone, and the fact that the presence of the Western Powers makes it impossible to institute in West Berlin a totalitarian political and administrative system along the lines of that in the Eastern Zone. The Berlin City Council elections in October 1946 and December 1948, the Western Powers' adherence to their position on Berlin despite all predictions of the SED press, the air lift, and the failure of the Soviet blockade of Berlin have been of tremendous importance in keeping the will to resist alive among the population of the Soviet Zone. The population of the Eastern Zone sees in the Western Sectors of Berlin a first-hand example of the meaning of a system which stands for freedom from fear, freedom of opinion, and democratic civil rights in general.

3. Since West Berlin is partaking of Western Germany's economic recovery to a much greater extent since the lifting of the blockade, and since the supply situation there has now become infinitely better than in the exhausted Eastern Zone, the population is shown the direct evidence of the economic advantages of a noncollectivist system.

4. Berlin is the only economic and —even more important— the only intellectual link between the two parts of Germany, which are drawing farther and farther apart. There is nothing which could take the place of this link.

An evacuation of Berlin by the Western Powers would thus have fateful consequences. The last link connecting the two parts of Germany would be broken, the example demonstrating the superiority of the Western system, the most effective form of propaganda with its direct evidence, would be lost, the population of the Eastern Zone would be deprived of its strongest

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spiritual and intellectual support, and its will to resist would receive a staggering blow, so that there would be little serious resistance offered to the Bolshevization process. Besides, the Western Powers would suffer an enormous loss of prestige if they were to give up Berlin, because the population of the Eastern Zone would then lose all hope that their country might some day be regained for the West.

For this reason it is understandable that Soviet Zone visitors in West Berlin are always asking anxiously whether the Western Powers really intend to remain in Berlin. It would probably not be putting it too strongly to say that never before in the history of the world has so much depended on the fate of one single city as on Berlin today.

6. The Development of the "Two Germanies"

Within 2½ years of occupation, Germany has been torn into two parts so completely that no one would have ever thought it possible; and these two parts grow more different from each other every month. On the one side there are the three Western Zones, where the economic, intellectual and political forces characteristic of Europe and of the West have been maintained. In the Soviet Zone, however, the Occupying Power has caused a true revolutionizing of all aspects of life, so that this region is becoming more and more similar to the Bolshevik system of the USSR and her satellites.

This development, which has been outlined in the preceding chapters, is characterized as follows:

Economic: Planned collectivist economy, state ownership, mounting restrictions on private enterprise, establishment of the Occupying Power in controlling economic positions, utilization of the economic potential predominantly for the benefit of the USSR.

Social: Elimination or weakening of the former leading classes, which have been replaced by a new class of leaders who are "reliable" in the Bolshevik sense of the word, while the working masses are subjected to progressively more severe exploitation.

Political: Erection of a new one-party totalitarianism behind the mantle of a pseudo-democracy, with the Occupying Power in a dominant posi-

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tion, and with political oppression which exceeds that of the Nazis.

Intellectual: Progressive restrictions on intellectual freedom and on freedom of expression, and the attempt to establish the domination of Bolshevist ideology in the press, literature, radio, and higher education, with the methods of personal pressure being used more and more.

Even today, conditions in the Soviet Zone can no longer be measured by the usual European standards. What is happening here is a continuous process of Asiatization, which is depressing the standard of living in every respect to the much lower level of the USSR. This fact applies, as we have seen in the preceding chapters, to the field of economics also. The European principle of rational economic planning, that is, the consideration of the cost and profit of an economic project, has been replaced here by a desire for production at any price, which corresponds to the political and armament interests of the Occupying Power. Measured by European standards, the economy and the transport system of the Soviet Zone can no longer be considered viable. However, according to the only standards applied, the Soviet standards, they will not "collapse", but they will continue to operate by the use of thousands of expedients, even though at a very low degree of efficiency and with continuous exploitation of the workers and the greater part of the rest of the population.

It is absolutely certain that this whole system is not in conformance with the will of the overwhelming majority of the population, but effective resistance is possible on only a very moderate scale, because of the heavy pressure exerted by the Occupying Power. It is therefore of the greatest importance for keeping the population's will to resist alive that Berlin be maintained as an intellectual and political center of strength within the Bolshevik sphere of influence, by continued Four-Power occupation.

The rigid boundary between the Soviet Zone and the rest of Germany serves the Soviets primarily for the purpose of carrying out their revolutionary changes behind their "Iron Curtain" without any interference, so that the Soviet Zone may be prepared for its future integration into the

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Soviet Union. Today the differences between these "Two Germanies" have already become so marked in the economic field that even if the Zonal boundaries were to be completely abolished, the reestablishment of a really united Germany would be an extremely difficult problem. The responsibility for this splitting of Germany can be charged entirely to the Socialist Unity Party and to the Occupying Power which supports it, whose assistance and protection have made it possible for this new totalitarian party to engage in its political, economic and intellectual activities. The Socialist Unity Party, of all parties, is the one which is always clamoring for the unity of Germany. But this clamor is nothing but a propaganda camouflage for a policy designed to bring about the separation of the Soviet Zone from the rest of Germany and its integration into an Eastern European Bloc controlled by the Soviet Union. The overwhelming majority of the population of the Soviet Zone is still oriented toward the West. But the decision on the fate of the Soviet Zone is not in the hands of its German population, but in the hands of the Occupying Powers. Despite the pressure, which has become excessive, the will to resist the Sovietization process is still alive, but we are greatly concerned as to how long this will to resist can stand up against that pressure. No one can doubt that the fate of the Soviet Zone, with its more than 20 million people (including Berlin) will be of great, perhaps decisive importance for the future of the entire European continent.

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ANNEX I

Reduction in Industrial Capacity in the Soviet Zone of Occupation

(including all of Berlin)

In Percent of 1936 Capacity

Branch of Industry	Reduction in Capacity Resulting from: War Damage	Dismantling	Capacity remaining
Metallurgy (altogether)	8	64	28
Iron foundries and rolling mills	-	70	30
Machinery construction (altogether)	8	72	20
Prime movers	-	-	24
Lifting equipment, conveyors, transmissions industry	-	-	13
Preparatory and construction machinery	-	-	44
Roller bearings, drive machinery	-	-	30
Machine tools	9	70	19
Tools	-	-	30
Wood-working machinery	16	67	17
Machinery for production and processing of paper and for printing	-	-	16
Textile, sewing, shoe-making, leather-processing, and laundry machinery	-	-	23
Fittings	-	-	18
Agricultural machinery, machinery for food and beverage industry, large and small scales	-	-	19
Machinery parts	-	-	19
Motor vehicle industry *	20	63	17
Precision mechanics and optics	15	60	25
Electrical industry	20	60	20

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[illegible]	[illegible] resulting from: [illegible]	[illegible]	[illegible]
Chemical industry			
Heavy inorganic chemicals,	15	10	25
Caustic soda	-	60	40
H_2SO_4 from gypsum	-	100	0
H_2SO_4 from other raw materials	-	30	70
Magnesium chloride	-	100	0
Nitrogen fertilizers (including industrial nitrogen compounds)	15	40	45
Phosphorus fertilizers	30	30	40
Synthetic materials	25	10	65
Explosives for mining	-	65	35
Coal-tar dyes	45	50	5
Pharmaceuticals	25	35	40
Sprays for plants	50	-	50
Photographic chemicals			
Negative materials	-	55	45
Positive materials	20	60	20
Mineral pigments	-	50	50
Lacquers	-	40	60
Shoe polishes	20	10	70
Textile processing agents	20	50	30
Soaps and detergents	10	50	40
Glue and gelatine	50	1	49
Rubber industry			
Motor vehicle tires	-	95	5
Wide rubber conveyor belts	-	100	0
Brake and clutch covers	-	60	40
Rubber soles and heels	-	40	60
Cement industry	10	40	50
Gypsum industry	5	35	60
Ceramics industry	15	40	45

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Branch of Industry	Reduction in Capacity resulting from: Air Damage	Blacklisting	Currently Operating
Wood industry	20	20	60
Plywood industry	-	10	0
Textile industry	10	15	75
Leather production	5	25	70
Shoe industry	5	15	80
Paper production*	4.5	45.1	48.4
Cardboard production*	4.4	[illegible]	56.8
Cellulose production*	3.9	20.1	76.0
Wood-cellulose production*	5.9	45.5	48.6

*In percentage of 193 .

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List of Soviet Plants in the Soviet Zone of Occupation

(not including Bismuth Corporation plants)

I. Coal Mining and Fuel Production

Land Sachsen:

1. Böhlen Combine, Böhlen near Leipzig
2. Böhlen Gasoline Plant, Böhlen near Leipzig (formerly Brabag).
3. Espenhain Combine, Espenhain near Leipzig
4. Borna Combine, Borna near Leipzig
5. Deutzen Combine, Deutzen near Leipzig.

Land Sachsen-Anhalt:

6. Golpa Mine
7. Gölzau Combine
8. Pfannerhall Combine
9. Deuben Combine
10. Wachtersteut Combine
11. Fröglitz Fuel Plant, near Fröglitz (formerly Brabag)
12. Profen Combine
13. Friedländer-Luchhammer Brown Coal Combine
14. Grasschütz Tar Distillation Plant
15. Böhsen Tar Distillation Plant.

Land Thüringen:

16. Zeitz Mine
17. Zositz Tar Processing Plant.

Land Brandenburg:

18. Schwarzheide Fuel Plant, near Ruhland (formerly Brabag).

II. Potash Mining

Land Thüringen:

19. Sachsen-Weimar Potash Mine
20. Bleicherode Potash Mine
21. Sollstedt Potash Mine
22. Bismarckhall Potash Mine

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45. Jaeger and Company, Leipzig

46. Lehmann and Company Armature Factory, Leipzig

47. German Ball-Bearing Factory (DKF), Inc., Pölitz-[illegible], near Leipzig

48. Richtel and Sachs, Reichenbach

49. Unruh and Liebig, Leipzig

50. Wetzel Power Plant, Leipzig.

Land Sachsen-Anhalt:

51. Langerhausen Machinery Factory, Inc., Langerhausen

52. Zeitzer Iron Foundry and Machinery Construction Plant, Inc., Zeitz (Verag)

53. G. Polysius Machinery Factory, Inc., Dessau

54. Kyffhäuserhütte Share-Capital Machinery Factory, formerly Paul Reuss, Artern

55. Schäffer and Budenberg, Ltd., Magdeburg

56. A. F (?). Hackensen Machinery Factory and Iron Foundry, Ltd., Magdeburg

57. Gruson and Co., Magdeburg

58. Buckau - R. Wolf Machinery Factory, Magdeburg and Salbke

Land Thüringen:

59. Olympia Office Machine Factory, Erfurt

60. Rheinmetall-Borsig, Sömmerda in Thüringen

61. Mace, Machinery Company, Erfurt and Andisleben

62. Karl Reich Machinery Factory, Zella-Mehlis

63. Heller (?) Brothers, Barchfeld

64. J. Stock and Co., Ohrdruf

65. Henry Pels (?) Machinery Factory, Erfurt

66. Rhode-Dörrenberg Tool Factory, [illegible]

Berlin: 67. Knorr Brakes, Berlin-Lichtenberg

VI. Construction of Vehicles.

Land Sachsen: 68. Elite-Diamant Plant, Siegmar-Schönau

69. Bussing-NAG, Leipzig

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Land Sachsen-Anhalt:

70. Gottfried Lindner Freight Car Factory, Inc., Ammendorf near Halle

71. Dessau Freight Car Factory, Inc., Dessau

72. Central German Bicycle Plant, Ltd., Sangerhausen

73. Ilsenburg Plant, Ilsenburg

Land Thüringen:

74. Cooperative Plant of the Thüringen Workers (formerly Gustloff Plant), Weimar

75. Gotha Freight Car Factory, Gotha

76. [illegible] Automobile Factory, Eisenach

Land Mecklenburg:

77. Neptun Shipyard, Rostock

VII. Electrical Industry

Berlin: 78. [illegible] Accumulator Factory of the SAG, Berlin

79. Siemens Cable Plant of the SAG, Berlin

80. Vogel Wire and Cable Plant, Inc., Berlin-Spandau

81. Varta Storage Battery Factory, Berlin

82. Stoltit-Magnesia, Inc., Berlin-Hirschhorn

83. Siemens-Halske Plant (Wernerwerke), Berlin-Siemensstadt

Land Sachsen: 84. Pertrix and Wolf Storage Battery Factory, Zwickau

85. Siemens-Werke, Inc., Siemens-Reiniger-Veifa Plant

86. Sachsenwerk, Inc., Siemens Dresden Plant

87. Siemens and Halske, Siemens Dresden Plant

88. Siemens and Halske, Werk Plant in Zwickau i.S.

Land Thüringen:

89. Schlotthauer Factory for Illuminating Equipment, Suhl

90. Siemens-Schuckert Plant for Electrical Installation Equipment, Sonneberg/Thüringen

91. Heliogen Factory for Electrical Measuring Equipment, Bad Blankenburg

92. Siemens-Schuckert Plant for Electrical Porcelain, Neuhaus/Thüringen

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23. Volkenroda Potash Mine

24. Kaiserode Potash Mine

25. Heiligenroda Potash Mine

26. Bischofsroda Potash Mine.

III. Production of Electric Power

Land Sachsen: 27. Böhlen Electric Power Plant, near Leipzig

28. Lippendorf Power Plants I and II, near Leipzig

Land Sachsen-Anhalt:

29. Bitterfeld Power Plant

Other power plants belong to the combines listed in Group I.

IV. Metallurgical Industry

Land Sachsen: 30. Wolfram Plant, Zschorlau near Aue

31. Die-Casting and Pressure-Casting Plant, Heidenau

32. Brandenheim Steel Foundry, Chemnitz-Borna and Altendorf

Land Sachsen-Anhalt:

33. Rolling Mill for non-ferrous metals (formerly Mansfeld Corporation), Hettstedt

34. Iron and Metal-Working Plant, Thale a. H.

35. Braun Müller Iron and Steel Works, Inc., Frankleben

36. Oswald Bunsch Steel Works, Bülbitz/Elster

37. Oswald Bunsch Steel Works, Duisburg

38. Krupp-Gruson Plant, Inc., Magdeburg.

Land Thüringen:

39. Götze Plant, Ilmenau

40. Werra-Kraupp Smelting Plant (Hartgussmelzwerke), Immelborn

41. Wilhelm Lober and Company, Foundry for Iron and Malleable Iron Castings, Suhl/Thüringen.

V. Machinery Industry

Land Sachsen: 42. Nema (Netzschkau Machinery Factory), Netzschkau

43. "Karl Liebknecht" Transportation Equipment Company, Ltd., Leipzig

44. Penig Machinery Factory, Penig

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93. Hescho-Kahla Ceramics Plant, Fernsdorf Plant

94. Hescho-Kahla Ceramics Plant, Gera Plant

95. Hescho-Kahla Ceramics Plant, Kahla Plant.

VIII. Precision Mechanics and Optics

Land Sachsen: 96. Louis Schopper, Leipzig

Land Sachsen-Anhalt:

97. Steinle and Hartung Equipment Factory, Quedlinburg.

98. Schäfer and Budenberg, Schönebeck Branch

Land Thüringen:

99. Keilpartb Instrument Factory, Suhl

100. Thiel Brothers' Clock Factory, Furla

101. Thiel Brothers, Ilmenau Branch Plant

IX. Chemical Industry

Land Sachsen: 102. German Celluloid Factory, Leipzig Plant

103. Vedag, United Roofing Paper Factory, Inc., (formerly C. G. Haubold), Leipzig

Land Sachsen-Anhalt:

104. Leuna Chemical Plant of the Soviet Corporation for Mineral Fertilizers (formerly Ammonia Plant of the I. G. Farbenindustrie)

105. Electro-chemical Combine Bitterfeld (formerly I. G. Farbenindustrie)

106. Piesteritz Nitrogen Plant

107. Buna Chemical Plant, Schkopau (formerly I. G. Farbenindustrie)

108. German Celluloid Factory, Eilenburg Plant

109. Wolfen Film Factory, near Bitterfeld (Agfa Film Factory of I. G. Farbenindustrie)

110. Wolfen Dye Factory, Wolfen near Bitterfeld (formerly I. G. Farbenindustrie)

111. United Roofing Paper [illegible], Inc. (Vedag), Schkopau near Halle

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112. Loppe and Roehming, Roofing Paper and Chemical Tar Products Factory, Ammendorf near Halle.

X. Cement Industry

Land Sachsen-Anhalt:

113. Nienburg Cement Plant

114. Nietleben Cement Plant

115. Gäschwitz Cement Factory, Gäschwitz/Saale

XI. Rubber Industry

Land Thüringen:

116. Vollrath and Son, Inc., Bad Blankenburg

117. Bloedner and Wierschrodt, Gotha

118. United Gothania Plant, Gotha

119. Thüringen Hose Factory and Rubber Plant, Waltershausen.

XII. Miscellaneous Industries

Land Sachsen: 120. State Porcelain Manufacture, Meissen

Land Sachsen-Anhalt:

121. F. H. Weber Paper Factory, Wellitz near Schkeuditz (Province of Sachsen)

122. Erwin Rehm Paper Sack Factory, Nienburg,

Land Thüringen:

123. "Wernerhütte" Glass Factory, Haselbach (Kreis Sonneberg)

124. S. Asch Glass Milling Plant, Steinbach

Land Mecklenburg:

125. Construction Board Plant, Meizenburg

Berlin: 126. Ideal Film Fut, Inc.

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Soviet Corporations' Share in the Industrial Production of the Soviet Zone of Occupation during the Second Quarter of 1947, according to the Production Plan of the German Central Administration for Industry

Branch of Industry	Total Value of Production (in 1,000 RM)	Production of SAG's
Coal mining	179,[illegible]	[illegible],833
Other mining	30,[illegible]4	15,348
Petroleum industry	102,560	78,[illegible]47
Metallurgical industry	[illegible]1,348	24,369
Heavy machinery construction	[illegible]0,0[illegible]7	[illegible]1,[illegible]31
Other machinery construction	73,437	39,941
Construction of vehicles	62,[illegible]49	28,081
Electrical industry	[illegible]5,794	[illegible],[illegible]34
Precision mechanics and optics	22,234	[illegible],599
Metal goods industry	[illegible]2,[illegible]35	[illegible],724
Chemical industry	217,578	94,087
Rubber and asbestos industry	41,498	[illegible],[illegible]33
Pharmaceutical industry	33,909	-
Building materials industry	6[illegible],5[illegible]6	[illegible],401
Wood-working industry	155,590	-
Leather, shoe, clothing industries	123,128	-
Textile industry	269,126	-
Musical instruments, toys, sporting goods	9,255	-
Cellulose and paper industry	44,565	4,510
Total	1,6[illegible]4,778	441,438

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List of Soviet State Corporations

Name of Soviet Corporation (Note - Russian names have not been translated from the German)	Share Capital in Millions of Rubles (before the Soviet currency reform)
1. Marten (iron, steel, and metallurgical plants)	100
2. Medj (non-ferrous metals industry)	80
3. Briket (coal mining and electric power)	260
4. Tonlivo (coal mining and electric power)	200
5. Buryj Ugolj (coal mining)	75
6. Rasres (coal mining)	95
7. Smola (coal mining, fuel production)	90
8. Maslo (coal mining, fuel production)	100
9. Karjer (coal mining)	80
10. Bagger (coal mining)	90
11. Gasolin (fuel production)	200
12. Syntes (fuel production)	80
13. Mineralney Udobrenija (mineral fertilizers)	400
14. Photoplenka (chemical industry)	200
15. Kaustik (electro-chemical industry)	210
16. Plastik (chemical industry)	30
17. Kraska (chemical industry)	120
18. Kali (potash fertilizers)	100
19. Kainit (potash fertilizers)	100
20. Silvinit (potash fertilizers)	53
21. Katuschuk (rubber industry)	520
22. Resinotechnika (rubber technology)	20
23. Zement (building materials)	60
24. AMO (machinery industry)	(omitted)
25. Podjemnik (machinery industry)	100
26. Totschmasch (precision machinery)	100
27. Awto-Velo (vehicle construction)	100

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Name of Soviet Corporation	Share Capital in Millions of Rubles (before the Soviet currency reform)
28. Prijbol (apparatus construction)	(omitted)
29. Transmasch (vehicle construction)	75
30. Kabel (electrical industry)	(omitted)
31. Isolator (electrical industry)	(omitted)
32. Wismut (uranium mining)	50
33. Linsa (film industry)	(omitted)

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Reparations Deliveries from Land Sachsen in 1946

General Survey by Branches of Industry

	In Thousands of RM
I. Machinery construction and metal-working	94,997
II. Construction of electrical machinery	34,378
III. Metallurgy	6,266
IV.a Precision mechanics and optics	18,420
IV.b Medical instrument industry	4,160
V. Chemical industry, rubber, and asbestos	39,032
VI. Textile industry	158,945
VII. Light industry	217,168
VIII. Paper industry	10,842
IX. Building materials industry, porcelain and faience-ware industry	6,920
X. Other production	30,470
Total	621,598

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Reparations Plan for Thüringen

First Quarter 1947

		Value in 1,000 RM
1.	Railroad materiel	4,000
2.	Industrial equipment	9,010
3.	Motor vehicles, motorcycles, bicycles, and replacement parts	2,930
4.	Equipment for vessels	300
5.	Communications equipment	340
6.	Precision mechanics and optics	480
7.	Typewriters, calculators, and sewing machines	4,300
8.	Chemical products	2,575
9.	Rubber and rubber products	1,850
10.	Standard houses and building materials	2,208
11.	General purpose goods (textiles, leather goods and shoes, electrical equipment, porcelain, musical instruments, clocks, also 3,750 hunting rifles)	16,430
12.	Medical equipment	545
13.	Miscellaneous goods	1,950
14.	Agricultural products (seeds)	362
15.	Foodstuffs (sugar)	11,200
16.	Repair of vehicles for the USSR War Booty Division	600
	Total value	58,980

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Mecklenburg's Reparations Deliveries for 1948

Land Government of Mecklenburg
Ministry of Economics

Summary

concerning the fulfillment of reparations assignments up to

30 September 1948

Industrial Group	Total Assignment for 1948 (values in 1,000 DM)	Goods Finished by 30 September 1948
1. Seeds	1,009	863
2. Pharmaceutical preparations	339	284
3. Wood	18,581	14,976
4. Wood for inlay	779	634
5. Barrels	941	326
6. Furniture	14	11
7a. Standard wooden houses Type V	2,123	2,123
7b. Standard wooden houses Type IV	1,949	1,304
8. Tools	45	23
9. Textiles	623	492
10. Medical apparatus	302	230
11. Machinery and apparatus	160	112
12. Castings	418	225
13. Roofing paper	649	705
14. Holzenburg wallboard	3,904	2,994
Total	31,896	25,202
15. Shipbuilding	66,371	27,586
Grand total	98,267	52,788

Distribution:

People-owned plants (Zone)	53,603	34,207
People-owned plants (Land)	1,841	1,446
SAG's	31,624	11,645
Others	7,199	5,490

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Plan for Thüringen's Deliveries to the Occupation Army

in 1947

		Values in 1,000 RM
I. Agriculture		
Agricultural products	14,014	
Food	42	
Goods produced from agricultural products	4,402	
Goods reprocessed from agricultural products	944	
Total		20,282
II. Basic Materials Industry	2,375	
Porcelain	159	
Total		2,534
III. Light Industry		
Leather and leather products	5,304	
Firearms	60	
Wood-working products	2,190	
Sports equipment	1,210	
Rubber and rubber products	62	
Total		10,135
IV. Heavy Industry		
Sanitary apparatus and materials	100	
Photographic and optical products	30	
Machinery and instruments	154	
Electrical equipment	649	
Precision mechanics	202	
Instruments and appliances	847	
Transport machinery	4,989	
General and special machinery	500	
Metal products	448	
Carried over from SMA T 14, March 1947, No. 11 - 31/P.O.	4,480	
Total		12,340
Grand total		45,291

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Consumption of Calories, Fat, and Albumen by Normal Consumers in the Various Zones, per Person per Day, as of the End of 1946

Zone	Calories	Albumen			Fats
		Total	Animal	Vegetable	
Berlin	1572	40.2	5.7	34.5	11.3
Soviet Zone					
Leipzig and Dresden	1471	34.7	4.4	30.3	10.5
Larger cities	1430	33.3	3.9	29.5	10.3
Remainder of Zone	1241	29.5	3.4	25.1	9.8
Average for Zone	1282	29.5	3.5	26.0	9.9
British Zone	1542	52.8	11.0	41.8	13.4
US Zone	1564	52.1	16.8	35.3	17.0
French Zone	1209	30.7	5.0	25.7	13.6
Average for all Zones	1451	43.7	9.6	34.1	13.5

Source: "The German Economy Two Years after the Collapse" (German Institute for Economic Research). Berlin 1947. Page 75.

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